Dear Investor

The following interview took place recently in Delray Beach, FL, at the Oxford Club's Investment U gathering. It involved two of the most successful investment professionals known to the Club: Chris Weber and Dr. Van K. Tharp.

You know Chris Weber, a former OC Investment Director and the voice of "Getting Rich Outside the Dollar," he's the person behind The Weber Global Opportunities Report. He's spent his entire life investing and has an exceptional track record, making millions in the markets before the age of 45. Through the interview that follows, you'll gather a better understanding of Chris's approach and how he's able to pinpoint profitable opportunities for investing no matter what happens in the markets.

Dr. Van K. Tharp conducts the interview. Van is the founder of the International Institute of Trading Mastery and is a renowned author and an expert in investor psychology and behavior. Perhaps he's best known though as the "Peak Performance Coach" to the world's greatest traders. USA Today points out that Van "has a six-month waiting list" of investors eager to have their performance sharpened by his expertise. Barron's emphasizes his special talent for "identifying traits that correlate to success and failure" in the world's best investors. He's been praised for his ability to uncover what empowers investors to make money—and what causes them to lose money.

Van's attained this reputation, in large part, through conducting more than 3,000 interviews with the world's greatest and most successful traders. As you'll see, Van's interview of Chris provides a number of insights into how and why Chris continues to succeed. But it also uncovers a little of the uniqueness that makes Chris one of the more fascinating investment gurus that you'll ever meet.

Van: I met Chris Weber recently at The Oxford Club's Investment University in Delray Beach Florida. He was one of the original investment directors of The Oxford Club, but that didn't last too long because it probably seemed too much like "work" for Chris. Instead, Chris chose to live a lifestyle in which his ability to invest is unencumbered by a traditional job.

Over the course of his investing career, Chris has turned $650 that he saved from delivering newspapers into a significant net worth (one he's too humble to reveal): one that allows him the financial freedom to travel the world chasing down the next opportunity. And he's accumulated his wealth through investing alone.

Chris fascinates me because of his almost "innocent" approach to life (which I believe is critical to his style as an investor) and the obvious investment skills that he has shown. When I asked him in person, "How have you done what you've done," his response was, "Van, I honestly don't know."

Again, I think he was being humble, for as you'll see through the interview, Chris has always had a very good understanding of where and when to invest and, more

importantly, when to get out. By hearing his remarkable story, I'm confident that you'll greatly increase the odds of you attaining the financial freedom that Chris enjoys.

A Paperboy with a Midas Touch

Van: Chris, when you first started, what fascinated you about the markets? What did you study, and what started shaping your thoughts?

Chris: I had just turned 16, and my first girlfriend had just dumped me, I was feeling not that great, and a Phoenix summer was about to start, wherein you can fry the proverbial egg on the sidewalk. So I stayed home and started to read. Up to that time I had read mostly history and biography. I had very little interest, if any, in the markets. And remember, it was 1971. A bear market in stocks had been underway since 1966, and no one really was interested in stocks. My father had been a mutual fund investor since 1942, and like all stock investors in 1971, was none too happy. He looked for alternatives and got a book called How You Can Profit from the Coming Devaluation by Harry Browne. The book's answer was to buy gold, silver, and strong currencies like the Swiss franc.

Well, my father stayed in the stock market with the bulk of his funds. But he put a very small percentage in those "alternatives." Anyway, I picked up the book, and it was a revelation. It is still the best explanation of what money is, and how it develops, that I have ever read. After that, it was "off to the races." I started reading all of the books mentioned in that book.

It was my interest in history that first held my interest. A book called, You Can Profit in Gold Coins, by Donald Hoppe (a lot of titles sounded the same in the early 70s) showed me how throughout recorded history, the story of gold—and who has it—is the story of the rises and falls of civilizations. "Follow the money" was soon to be the watchword of the burgeoning Watergate investigations, but I could see that, through the centuries, gold flowed to the nations who were rising, and fled from those which were on the way down.

Van: That might be an interesting statement to think about in today's market condition. In my opinion, the U.S. is no longer a rising country. But go on, Chris.

Chris: By the time that summer was over, I had forgotten about that girl: I was consumed with the discovery of a kind of "secret knowledge" that only I seemed to have. It wasn't on television or in the newspapers.

I had become convinced that the U.S. dollar was about to fall against gold, the Swiss franc, and the German mark. This was because of the way I now saw the monetary system of the world. In essence, the international monetary system from 1944 to 1973 gave the U.S. government a power no other government ever had—and is not likely to ever have again: the power to print paper money and have it be accepted as gold all over the world.

Several things were way out of balance—$35 equaled one gold ounce at a fixed rate, and the dollar was unrealistically high compared with other currencies. From the 1930s through April 1971, the Swiss franc, month after month, fluctuated only between 23.01 U.S. cents and 23.36 U.S. cents. All foreign currencies were defined in terms of dollars at a fixed rate. And the dollar itself was defined in terms of gold . . . it was, to foreigners, "as good as gold." They could turn in their dollars to the U.S. Treasury's "gold window" and get an ounce of gold for every 35 paper dollars they presented. But for decades, not many did—they trusted the dollar.

So the U.S. had this unprecedented power to print paper money, say that it was redeemable for gold, and have the whole world believe it. How would you like to be able to do that? Would you handle this power responsibly?

Well, human nature being what it is, this power was abused. The U.S. printed dollars madly through the 1960s to fight a two-front war, on both poverty and Vietnam. Foreign governments, under the rules, were forced to inflate wildly themselves to keep the artificially high dollar exchange rate. But by the end of summer in 1971, they had had enough. They stopped supporting the dollar. And its value, at first ever so slightly, began to fall. They started stepping up to the "gold window" in Washington and presenting their claims.

Now, all this was happening during the very time that I was reading about how it was "going" to happen. Some of the books I was reading were written in the 1950s, and they were saying it was going to happen like this anytime now. Later, I met people who became convinced this was going to happen a full 20 years before it actually happened. They put all their money into gold and Swiss francs. Their timing was awful, and they were unlucky.

Van: Their timing was awful, and their position sizing was even worse because they risked it all.

Chris: But I still give thanks that I just happened to learn what "had" to happen just at the very time when it all started happening. I was not only lucky to be at the right time, I was lucky to be in the right place. At that time, Arizona still had memory ties to the Old West, and gold coins were not thought of as too weird. (The next year in school I met the Governor of Arizona, Jack Williams, in his office, and when I—a brash 16 year old—told him about my ideas about gold, he smiled and agreed with me. "Keep holding your gold," were his parting words of advice.) Anyway, during that fateful summer, there was this Sunday evening talk-radio show hosted by a coin dealer by the name of Rene Baxter. I learned a lot, but the most important thing was that I could bicycle down to his office and buy gold coins.

On August 15 of that summer, President Nixon dramatically announced, along with wage and price controls, that he was closing the "gold window." He cut the last link between the U.S. dollar and gold. The international monetary system was thrown into chaos, and the fall of the dollar against the strong currencies really started. That December, he formally devalued the dollar against gold by about 8.5%. But by then I knew that I was

on to something. The theory I had been reading joined with the practical headlines in the daily newspaper that I was delivering. It was heady stuff.

Van: Your first investment was in gold coins at $35 per ounce. What shaped that decision? What were you looking for? What happened inside you to make that sort of decision? Also, I understand you used leverage. Did you do that at first or only after you saw it going your way.

Chris: Yep, convinced with the knowledge that I was right, as only a 16-year-old can be, I went to my bank, withdrew the $650 dollars that I had saved from my paper route, and biked down to Rene Baxter's coin store. At that time it was actually illegal for American citizens to own gold, but they could own numismatic, or rare, gold coins. What was considered rare was open to interpretation, because in some sense anything that is limited is rare, which is pretty much anything. So Old British Sovereigns were considered rare, having been minted before 1933. But they were only $12 dollars apiece at the time I first bought them. (They contained less than an ounce of gold.)

Moreover, during his Sunday night radio shows, Rene talked about leverage, about buying on margin, about how one dollar could buy four dollars' worth of gold. Well, I didn't think about safety, I didn't think about risk, I only thought about the fact that with just $3 I could own a historic gold coin that I had been reading about, and that everything I knew was telling me would go up a lot in price. So soon I was the proud owner of nearly 2,000 of these Old British Sovereigns.

I was a 16-year-old kid, it was in July of 1971, and the next month the lid blew off the can. Gold started up on an astounding journey that would take it by the end of the decade to $800 per ounce, and those Old British Sovereigns moved to nearly $300 apiece, or almost 1,000% above the $3 price I paid with my 4-to-1 leverage.

Van: And you held it all the way up?

Chris: As the price started going up, I started trading. I still don't know how I did it, but when I thought the price was going up too far, too fast, and had gotten ahead of itself, I sold my coins. I waited until I thought the rise was going again.

Anyway, by the time I finished high school I was rich. I had not liked school, and my ability to make money with investments silenced anyone in my family who would otherwise had insisted that I go to college and "make something of myself." Instead, I was free to travel, invest, and continue my education by finding the best people whose books and articles I had been reading.

I got a job with one of them, Jerome Smith, author of the prescient Silver Profits in the Seventies (silver would go up 3,000% during the 70s, from $1.29 to $40). I called it a "job," but he essentially paid me to read, travel, educate myself, and write articles for him. It was all sort of a dream, and so far, I have never awoken from it.

Van: Chris, you cashed out of that investment at $677 per ounce—returning nearly 100 times your money because of the leverage used. What made you cash out of the

position? What made you uncomfortable? Was it the fact that gold was becoming too expensive or did you find better ideas?

Chris: It was a happy combination of both: Gold was becoming too expensive, and I had seen another trend starting.

First, throughout 1979, there were signs that gold's rise was unsustainable. Certain people that I knew had always jumped on trends when they were almost over. Like clockwork they started contacting me and even coming to visit—people I hadn't seen in years—because they remembered how much I had advised buying gold six years before.

The gold price rise started to be "cocktail party" chatter, and it entered the popular culture. I well remember watching "Saturday Night Live" in late 1979 when Al Franken did a funny bit on how people who thought he was funny should send him gold. In other words, after years of being looked at like a loon when gold came up, I suddenly saw "the crowd," not just being aware of it, but piling in. I sort of instinctively realized that whenever this happens, the game is probably over.

But there were more substantial indicators. The '70s had been an era of steep inflation, and this of course was one of the chief factors behind gold's rise. But on Saturday, October 6, 1979, the chairman of the Federal Reserve, Paul Volker, made an announcement that for me changed everything. At that time, the Fed chairman was not very well known, certainly not as famous as his successor, Alan Greenspan, would become. But what Volker announced on that day was, essentially, that the central bank would start reducing the rate of inflation. He didn't use those words, instead the message was couched in more technical jargon about "targeting reserves." But to me the message was clear, and the next few months I watched as Fed Credit—the only part of the monetary base that the Fed actually controls—slowed its rate of increase. All that has to happen to stop an inflation is for the rate of increase to slow: There doesn't have to be an actual decrease in newly printed money.

This, combined with the basic fact that by late 1979 the gold price was in a parabolic rise (it had soared from around $200 to over $600 in just over a year, and would soon touch $800), made me start planning my exit from gold.

Had I known about the concept of the trailing stop, whether at 25% or some number like it, I would have used that. Instead, what I did was start selling off my physical metals and buy gold call options with a portion of that money. I still wanted to be in the gold market, and keep profiting just in case I was wrong, but I sure didn't want to lose much in case I was correct. At the time, it was not that easy to buy options on gold. You had to buy the proprietary products of investment banks (White Weld was the name of the one I used, a firm that has long since morphed into something else).

I bought a few contracts of a close-in month and it turned profitable, as the gold price kept going up. Then I sold out, banked some of the profits, and bought fewer contracts, which also were profitable. I kept selling and banking profits, as the gold price kept

soaring. But each time I was buying fewer contracts. I knew that at some point my options would expire worthless, but of course I did not know when that would be.

I remember the last date that I bought my final contracts. It was January 21, 1980, and gold had just topped $800. The final contract was very expensive, and of course I lost all of the money that I put up. Nobody would have guessed it at the time, but that was the start of what would become a 21-year bear market. So I used the concepts of limiting risk and having an exit strategy, long before I actually had the idea formally presented to me by Steve Sjuggerud and, indirectly, by yourself.

Getting into Foreign Currencies Just Before the Dollars Swoons

Van: You also started buying foreign currencies in the late 1970s as a hedge against the dollar. What shaped that decision?

Chris: It was actually in the early 1970s, about two years after I started buying gold. I had moved to Canada to work with Jerome Smith and found that the Canadian banks, even back then, allowed you to open bank accounts in different currencies. I made some forays into the commodity futures markets, but mostly it was in simple bank deposits. But this was a small part of my portfolio compared to the metals, which was where all the huge price gains were.

Van: And when you got out of that, what influenced your decision? Was there a better investment or was it just getting too expensive? And how did you know?

Chris: After getting into the Swiss franc in the early Seventies at an initial price of about 25 cents, I got out of it in November 1978, at which time the price had risen to about 65 cents. I got back into the U.S. dollar. The reasons that I did this were not that the dollar's managers had suddenly mended their extravagant ways and resolved to inflate no more. It was that the various other currencies began inflating more.

In 1976 monetary inflation in the U.S. was expanding at an annual rate of 8%, which was then considered very high. In 1978, two years later, the money growth rate remained about 8%. By comparison, in 1976, German money growth had been 6.5%. By late 1978 it was 13.5%. Over the same period, Japan's went from 3.6% to 16.5%; Britain's from 11% to 21%; France's from 6% to 14.5%. But Switzerland's deterioration was most dramatic. In 1977, money inflation was a tiny 0.4%, virtually zero inflation. By late 1978 money inflation had exploded, reaching annual levels of 33%. This was a real danger signal.

Also, I felt in my gut that after six terrible years for the dollar, its value had gone too low. No price goes in one direction forever. We had made fabulous profits by owning the franc—it was time to take them and cash in.

I stayed in the U.S. dollar until 1983. It was not easy for me to be out of foreign currencies for all those years. After all, I'd long believed that the dollar had fundamental problems. But I had to set aside my biases and keep listening to what the market was telling me—that this was a dollar rally that would last years. During that time it was

quite profitable to draw double-digit interest rates in safe dollar instruments, while watching the franc decline. By 1983, it had lost about a third of its value against the dollar, and I finally bought it again. Why?

Pure contrarianism! By that time I had lived in London for three years, had paid for my flat each month in a pound that each month fell in value. In dollar terms my apartment just kept getting cheaper each month. I knew that this could not last. By 1983, traveling in Europe and North America, I heard talk of the strong dollar on everyone's lips. This gave me pause. When Time and Newsweek run cover stories on how the dollar's rise is inexorable, it is time to switch to other currencies. It all reminded me of the crazy gold fever of 1979 and early 1980. Also, the Swiss had spent the five years from 1978 to 1983 putting their monetary house in order.

Anyway, I am probably telling you more than you asked for. But you wanted to know why I make switches... and as you can see, I don't normally make them that often. I am content to be on the “sidelines” for years if need be if I don't see any great values in the markets I watch.

Chris’ Bond Voyage and a 1,000% Straddle Return

Van: And you said there was another investment that was interesting to you?

Chris: As inflation heated up in late 1979 and early 1980, so too did interest rates. By early 1980, the prime rate reached an amazing 20% (based on the 30-year T-bonds or “Treasuries” rate), and Treasury bill (T-bill) rates were not much under that. Since I thought that inflation would be coming more under control, I started buying T-bills with the profits I made from selling gold and silver. To me it was an easy decision.

Van: So your third major investment was in treasuries, believing that interest rates would go down, which of course they did. What shaped that decision? Was the trend already in place or were you just very aware of market forces going on at the time?

Chris: Let me take my mind back there, to one of the most extraordinary times of my investing life. As I said before, I had thought that inflation was not going to run away in spite of what it seemed to be doing. I had already started to buy three-month T-bills when I sold my Swiss franc holdings in late 1978. I just added to them throughout 1979 and early 1980. And by the time my last gold call option expired worthless, I think I was totally in Treasuries. About half was in short-term T-bills, and the other half in long-term T-bonds.

In my travels, I had met an analyst named Alexander Paris. He had a background in institutional investing, much more mainstream than the gold bugs I had known previously. I learned a lot from him about how to read the “tea leaves.” Specifically, in April of 1980 he pointed out that, first, both short-term and long-term interest rates were soaring, and we agreed that this was unsustainable, given what the Fed had been doing to bring down the root causes of high inflation. But then he pointed out that when the two interest rates—short and long—start to fall, it was a very sure bet that short-term rates would fall faster than long-term rates. This was because short-term, three-month T-bill

rates had soared much more than 30-year Treasury bond rates. In fact, they were nearly 20%. All because of a fear of hyperinflation. Long-term rates, at “just” 13% or so, were much lower. This of course is the opposite of normal, and I had been thinking that normalcy would be restored.

As the fear of hyperinflation receded, both interest rates would fall, but short-term ones would fall faster than long-term ones. Put another way, the price of three-month T-bills would rise, relative to the price of 30-year bonds. (When interest rates fall, T-bill and bond prices go up.)

What Paris suggested doing was something I had never done before: a straddle on the commodity futures markets. I bought contracts of T-bill futures and simultaneously sold short the same number of contracts of T-bond futures. Every contract would mature in the same future month.

Apparently, at that time, no one was doing this, because the price of each straddle (one contract short, and one long) was only $400. Well, I bought a lot of them, and this was to be my first “public” trade. The brokers I used were the Aden Sisters, Pamela and Mary Ann. They and I watched in amazement as exactly what we had thought would happen did happen, especially after President Carter put on credit controls in May 1980. The upshot was that when I sold out, each $400 straddle had increased in value by more than 1,000% to $4,400. The Adens, now famous gold analysts, are still telling people about that trade, 23 years later. (All this took place in about four weeks.)

Well, after I cashed out, I looked around and the yield curve had become much more normal: short-term T-bills paid much less than long-term T-bonds. I bought a lot of the 10.38% T-bonds, maturing 2004-09. At that time, they were benchmark long bonds. I held this one for years.

I didn't catch the exact top in yields—far from it. That didn't come until 1982. So for at least a year and a half I was not completely sure that I had made a good strategic bet. At times, the price of my bonds was below where I bought them. But buying bonds in 1980, after that shaky start, turned out to be a wonderful thing. The bond bull market that began in the early 1980s is still with us.

Van: You mentioned to me that you held that position a long time because interest rates have been coming down for a long time? Do you still have it? If not, when did you exit and what shaped your decision?

Chris: Bonds have been the centerpiece of my portfolio ever since. As time went on, I rolled over bonds, so I am not getting 10.38% a year any longer. When I cashed out of my stocks and real estate in early 2000, I added those proceeds to my bonds. Once again I was nearly 100% in government bonds, with the average yield now about 7%.

But whatever else I invested in from 1980 to 2000, Treasuries were the centerpiece. The interest they kept paying made it possible for me to have the freedom to make speculations in other things, knowing that if I lost I would not lose my financial freedom.

And overriding all this was my view that, after the world's near brush with hyperinflation, we would have a period of disinflation, where the inflation rate fell.

At the time, I had no idea that this period would last over a generation. But as time went on, I saw no reason to believe that inflation would come back again to ravage bond prices, as they had been ravaged in the huge 40-year bear market from 1942 to 1982. Will the bull market last as long? If it does, it would mean that the world would lapse into actual deflation.

Chris' First 3 Investments Set the Stage for Financial Freedom

Van: So let me summarize what the commonalities were. First, there is some common sense to what you are doing. You have a sense of macro-economics, and when things get out of alignment, you start to act.

• In the case of gold we have an incredible situation of the U.S. government printing money with that money fixed to gold and everyone else believing it.

• In the case of currencies, we have the observation that inflation was much higher in the dollar than it was in foreign currencies.

• And, in your bonds example, you bought Treasuries because you felt inflation was coming under control, especially after Volker made his announcement in October 1979.

So your entry decisions are basically made by major fundamental misalignments. I would guess that there are some examples of when this hasn't worked. But in general, you are looking for something so major that it really stands out.

To this point, your exits have been shaped a little differently. There seem to be two factors involved, but please correct me if I'm wrong.

1. You are very aware of when your reasons for entry no longer exist (i.e., the fundamentals have changed).

2. Most importantly, you are also aware of the sentiment energy. When people become aware of what's going on, you get nervous and start to exit your position.

But how do you know you are wrong? What causes you to get out of a losing investment? I'm asking that based on my understanding that stops are a fairly new idea to you.

Chris: I try not to have any ego when I invest. If the market tells me I am wrong, I listen. It is the height of hubris to think that you know more than the market does. To put it in a timely analogy, since we are at war, I make my forays into the market as a general would when he tests the enemy line for weakness. If he gets repulsed, then he probes elsewhere along the line until he finds opportunity, and then he pours his troops in. The object is to lose as little as possible when he is wrong, to cut his losses and wait

for more advantageous opportunities. They will come, but you have to be sure that you have the resources to exploit them when they do come.

Expensive Lessons and the Value of Trailing Stops

Van: Okay, so now we've covered three major winning investments. Were there any losers in this period of time? Or did you manage somehow to just gravitate toward the winners? And if there were any losers, did you get out quickly?

Chris: I made one investment where I lost everything I put up. This was in the late summer of 1974. I had been talking for a few years about gold, of course, and at that time a friend of a friend gave me $25,000 and told me to put it where he could really take advantage of the price rise. I had never used the futures market before (I was then 19). But one of us, either he or I (or maybe both of us), decided that this would be the way to really make money. If you look at a chart of the gold price in the summer of 1974, it was just going gangbusters. Gold fever was starting to sweep the nation.

So I leveraged his money to the hilt. Needless to say, a few days later, in September, gold's price fell by around 10 to 15% over a couple of weeks. It was a violent correction in a bull market.

(We look back at it now, of course, as a minor blip, but at the time it hurt a lot of people. The great Dow Theorist George Schaeffer, who had correctly predicted the 1949 start to the stock market bull that lasted until 1966, and stayed with it all the way through—an amazing feat—committed suicide on September 20, 1974 by jumping out of a window. He did so because he had bet too much of his holdings on gold stocks that fell by much more than 15% in those few days.)

Needless to say, “our” futures were so leveraged, they were ravaged. I didn't know anything about cutting my losses, or limiting risk... so I decided to try to make it back. Of course, things just got worse, and the man ended up losing all his money through what I did. He was not happy, and I was mortified.

Losing your own money is bad enough, but wiping out the entire position of someone you had been bragging to about how great you were, that was something worse.

Looking back, the dramatic events of those few days (my friend's loss, and Schaeffer's suicide) made a big impression on me. I never again took such a risk and bet “all my wad” on something so leveraged. And I never again started an investment without asking myself, What is the worst that can happen with this investment? Of course, one can say that it was not my money that I had lost, so I guess my lesson came cheaply. But nearly 30 years later, I still feel the sting. And I can still hear his voice on the phone saying the last words he would ever say to me: “Any more bright ideas, Weber?”

Van: My understanding is that you only recently heard about trailing stops. And, I think, Steve Sjuggerud told me this story… When you heard about them, you were so excited that you walked around the neighborhood telling your neighbors. If that's the case, then

none of your exits were based on stops up to this point. So what shaped your exit decisions?

Chris: Yes, you heard exactly right. In the fall of 1999, I found out about you and your ideas through Steve. It was a “Eureka” moment. Suddenly I had the power to go into stocks that otherwise I would have stayed away from. Remember that at that time, the Internet stocks were soaring in the same parabolic curves that gold had been doing exactly 20 years earlier. I had stayed out of the high-tech stocks (I didn't understand them), but after sitting out the stock market blow-off from 1996 to 1999, I found that I now had a way to get my toes wet. I knew that it would come to a sad ending, but I didn't know when, so the concept of a 25% trailing stop made a lot of sense for the small portion of my money that I decided to invest. I bought Broadcom at around $45, and got out at $180 a few months later: 25% below the peak price, but I was not complaining.

And it is true that I started going to my neighbors in Palm Beach and telling them about it. I joked that “I am going door to door to tell you about this amazing product!”

We had a nice, clubby, neighborhood where I lived, and got together often. All my neighbors were hip- or even neck-deep in the Internet and computer stocks in the winter of 1999. One was a big player in the markets, and had just gotten a nice IPO chunk in Freemarkets.com from his broker. Just before Christmas, he asked me what I thought he should do. (I had a reputation as a sort of a skeptical guy who had been a professional investor for years.)

Well, armed with my newly discovered knowledge, for once I felt very confident in my reply... the 25% trailing stop strategy of course. I could tell that he was confused by the whole thing, and he later told me that he sold half at the first day's trade, about $250 as I recall, and just held the other half with no exit strategy. Had he employed the trailing stop idea, he would have gotten out of the whole thing at a lofty $270 a share. I think he still owns the rest of his FMKT, and I think the price is below $5 now.

But until then, while none of my exits had been based on trailing stops, I had used stop losses, either actual or mental. I got into the habit of cutting my losses if things did not work out well at almost the outset. You may say, as some did, that I “gave up too fast,” but it worked for me. Maybe I am loony, but it seems as if every really profitable investment I ever made in the market started being profitable at the outset, or within days.

With bonds, of course, you start earning interest immediately. But with stocks, unless they pay good dividends, this can be a different story. I would become convinced of some trend over the years, be it Asian infrastructure stocks or biotech, and buy a bunch. Almost immediately the winners would appear, and I sold off the losers. In most cases, the losers kept losing.

I think I may have learned to cut my losses from my father, not because he did it, but because he didn't. He did not get out of his gold holdings in 1979-80. He is a stubborn man, and just held his gold coins until 2001, at which time he sold at the bottom. I never want to be in the position of holding any asset through a 20-year bear market. You never

know when such a thing will happen, so you always have to have an exit strategy in case you are wrong.

Again, you can say that I learned through someone else's mistakes. In this, I have been lucky.

Van: Are you now consciously using trailing stops?

Chris: Absolutely. From the day I found out about them, I have not bought a stock without using this technique. The only exception is the small percentage of my portfolio I have in gold stocks. I bought a bunch of them two years ago and have just put them away. I sold only one (Placer Dome) but because it was consistently lagging the others. The golds are more in the nature of an insurance policy, and I wouldn't use a trailing stop on that.

But on everything else, yes. And it has worked wonderfully. I started my Weber Global Opportunities newsletter in October of 2000. The two and a half years since then have seen wonderful returns: 5.8% for the rest of 2000, 33% for 2001, and 20.1% over last year. We did this by cutting the losers quickly and letting the winners run. We have always used trailing stops to both cut losses and protect profits where a stock will rise far and then start to fall again. Depending on how conservative or speculative I see a stock, I will recommend anywhere from an 8% to a 50% trailing stop, but normally it is 25%. The exact figure is not, I think, as important as the fact that you have a clearly defined exit strategy at the outset, and that you stick to it.

Building a Legacy—Chris Gets into Asian Infrastructure

Van: You've also had a foray into the emerging markets in Asia. You bought global infrastructure stocks in countries like Malaysia and Indonesia. What shaped that decision? How did you select companies to buy in Asia?

Chris: In late 1992, I read a wonderful article in the Harvard Business Review by the legendary Peter Drucker. His point was that the manufacturing base of the world was moving to Southeast Asia at a blinding speed. Strange as it seems, I hadn't really been paying attention before, but within months I was on a plane to Kuala Lumpur.

I was just wandering around, and I noticed that even though the economies of this region were growing like crazy, they were still woefully in need of basic infrastructure like water, sewage, telephone service, roads and electricity. So I found companies that met this need, either homegrown ones like Hong Kong's Hopewell Holdings, or European ones like the great Swiss cement maker Holderbank. My friend Diego Veitia, who owned International Assets brokerage firm, was also instrumental in suggesting companies to research. Many of these stocks went up hundreds of percent.

Van: And did you get out for the same reasons—sentiment and the fundamentals changed? I know I was doing a speaking tour of Asia for Dow Jones in 1997, and the sentiment was so strong that I wrote a newsletter on it just from the psychological perspective. This is just to check to see if the decision process is the same.

Chris: I bought [Asian infrastructure stocks] in March 1993, and I got out of them in late 1995, nearly two years before the big collapse in Asian stocks in 1997. I had no planned exit strategy, or I would have made more money. But I had already made so much, I thought it would be greedy to stay around hoping for more. They, as well as all the stocks I held even on Wall Street, had been going up for so long—the bull market had begun in 1982—that I just thought it was time to get out. Again, I had made so much—much more than I needed to last the rest of my life. I had seen what greed did to investors, and thought that if I stayed in, the only reason would be greed, and that sooner or later, I would get what I deserved.

Getting Through the "Shortage of Real Wisdom"

Van: What do you read on a regular basis? And how do you separate what is real from other people's opinions of what is going on? What information do you think is important?

Chris: First of all, I find that there are now only two things that I read every day. The Financial Times is certainly the best newspaper in English, in the world for keeping up with daily news. And Richard Russell's Dow Theory Letters is something that I have been reading since I was a teenager in the early 1970s. He has been writing them since 1958. With the advent of the Internet, he is putting out daily reports to his subscribers, and his sites have a lot of other interesting things that I may have missed. I always read The Economist each week. I try to read the New York Times each day. And then I read a smattering of newspapers and journals and newsletters, but none with "every issue" regularity. The Internet has made it easy. Here I am sitting by the Mediterranean Sea and can read through all the newspapers and journals of the world.

But while there is no lack of information, of course there is always a shortage of real wisdom. And to answer your question about how I ferret out what is real, I am not sure I have an easy answer. There is something inside me that seems to zero in on what is real and that either disregards or laughs at the rest. It certainly doesn't bother me when virtually everyone else has a different opinion from me. Of course, I could be wrong—and that is where trailing stops come in so handy.

But I have learned that in investments, when "everyone's" opinions are one way, I am better off going the other way. In fact, I have come to feel more confident that my investment ideas are correct when I tell them to people, and they look at me as if I were crazy, or with pity, or both. This is a look I have gotten at more than one time in my life, and each and every time I got it, the investment idea turned out to be a good one.

I guess here is a good time to say that I don't feel the need to be in any markets all of the time. There have been years where I have patiently waited in T-bills. So I have other interests other than investing that keep me engaged. During those times, I still love to follow the markets that I am not in, but I don't have to be in them unless I get a strong feeling that they offer tremendous values.

Investing Today: Chris Tackles 5 Trends and How to Take Advantage

Van: As an example, what do you think the major forces shaping the global economy are now? Let's look at what I believe may be the five major factors that seem to be circulating in economic literature and see what you think of each of them.

1. Van: The first one might be China exporting deflation to the world? Is it real? Does it shape your investment thinking? Why or why not?

Chris: Yes, I do think that China is a tremendous force for deflation in the world today. The manufacturing world is shifting today, with blinding speed, to China, which is a low-cost producer even compared with Malaysia and Indonesia. It keeps churning out material goods to a world that is saturated with them, to a world which is up to its ears in debt trying to pay for the things it already has. Those who have to compete with China elsewhere have the devil's own time trying to do it. It is a cliché, but a true one, that there is no "pricing power." In other words, deflation is a distinct danger.

Van: 2. The Federal Reserve's statement that they would fight deflation at all cost, even if it meant really strong inflation?

Chris: I have absolutely no doubt that they will try to fight deflation by inflating. The only thing I am not at all sure of is how they can be so sure that they will succeed.

After all, the only power any central bank has, be it the Fed or the Bank of Japan, is to increase or decrease the supply of money to the banking system: to loosen or tighten credit conditions. But when they provide newly created reserves to the banking system, they cannot force scared banks to lend this money out, nor scared consumers and businesses from taking on yet more debt.

In Japan, and now in Germany, this is exactly the situation. If conditions worsen in the U.S., if unemployment keeps rising, and if businesses cannot charge more for their products even though they must keep servicing their debt payments, are these businesses going to be in the position to keep borrowing and spending? And if they stop—to start rebuilding their own balance sheets—what can any central bank do to stop it?

I read about some possible moves of desperation such as having the Fed buying all kinds of debt instruments on the open market—the act which starts the inflation process. Now they only buy government bonds and bills, but the suggestion is for them to buy even lower quality paper like corporate bonds. Aside from this raising the moral hazard question (why should corporations be bailed out, and why should the Fed start owning corporations, or part of them?) how would more money in the system necessarily get people to borrow and spend when they have too much debt and too much "stuff" as it is?

No, deflation is something I very much worry about, and it is a big reason why I am not going to get rid of my AAA bonds.

Van: 3. The concept of a primary bear market (or secular bear market) that might produce a zero return in the stock market over the next 15 years?

Chris: Yes, I think this has a lot of merit to it as well. We have just come off of the longest and most powerful equity bull market in the history of the world. It lasted, depending on when you date it, for 18 or even 25 years. At the very least, I see a "regression to the mean," where a time has to pass to allow stocks to throw off sub-par returns to balance out the above-par returns of the 1980s and 1990s. Certainly, there will be period of "mini-bull" markets. But we must all be alive to the possibility that the next 15 years will resemble the frustrating 16-year period from 1966 to 1982, which directly preceded the last bull market. I am old enough to remember stock holders waiting and holding and hoping during this period, and at the end of it the Dow, which had touched 1000 in early 1966, was still below 1,000 in mid-1982. That was a long time to wait.

Van: 4. The idea that the U.S. consumer has been supporting the world for many years and the fact that Americans don't save—they spend. However, American debt is so huge that it might just implode, both consumer debt and government debt.

Chris: Yes, again. And this is another reason to own both government bonds (of short-to-medium term) as well as some gold as an insurance against a debt collapse. If it happens, then gold would be the only asset that is not a claim on something.

Van: 5. Foreigners eroding confidence in the U.S. dollar as a strong currency… replaced by the view that it's only backed by the ability of the Federal Reserve to print money.

Chris: We agree again. But you don't even have to agree with this to see that the dollar is beginning one of its regular bear markets. The cycle has been going on since the early 1970s when currencies started floating. We can see that 1971 to 1978 was a bear market for the dollar, 1978 to 1985 was a bull market, 1985 to 1995 a bear market (with some mini-bull markets), and 1995 to 2001 another outright bull market. As you can see, once a trend gets started it has lasted for several years. I think that all Americans should protect themselves against a fall in the dollar, or rather a continued fall.

Van: So I gave you five trends that are going on and you've made your comments on each. Is there anything important that I missed that is shaping your decisions?

Chris: You have hit upon the major trends that I think are shaping the financial and investment world. That is not to say that there will be times when minor trends (say, a mini-bull market for stocks) will not be important to me in the short term. But as for long-term, important trends, you have nailed them.

Wait, now that I think more about it, one other trend I see is one of competitive devaluations, where many countries try to cheapen their currencies to jumpstart their exports in this period of contracting global economies. This trend has not been much noticed, but it was the deciding factor in persuading me to get back into gold a couple of years ago.

What to Look for to Take Advantage of the Trends

Van: Okay, we've now explored the fundamentals that we think are significant. How do you then identify the best opportunities or the best ways to capitalize on those

fundamentals? For example, if you think China will boom, how would you identify the major opportunities in China?

Chris: For each of the other trends except that final one I brought up, [regarding the U.S. dollar] I have suggested some ways to take advantage, or at least protect yourself.

But the China question is hard. As of now, there doesn't seem to be a safe way that the average investor can capitalize. The stock market there is not nearly as transparent as I would want. There is too much stock manipulation. And I am absolutely convinced that the Chinese currency [the RMB or Yuan] is drastically undervalued and will at some point rise strongly against the U.S. dollar. It has been tied to the dollar in the same way that the European currencies were before 1971. But back then it was easy to buy interest-bearing deposits in good banks in these currencies and just wait while you profited. But the Chinese currency is not traded internationally.

If I were "hungrier" I would spend months in China just poking around. Who knows, I might do it anyway, because I think that at some point there will be tremendous opportunities there. First, though, I would love to see a mature stock market and a realistic currency and banking system. The last thing the Chinese want now is to have their artificially cheap currency rise, as it would make their exports more expensive. But I think the longer they delay in facing reality, the more violent the ultimate rise in the currency will be. It would be nice to be there (i.e., holding deposits) when that happened.

Van: Do you need any technical support before you invest? For example, does it have to at least show the start of a trend in your direction for you to invest?

Chris: Once again, a great question. Yes, technical support is crucial. For instance, when I bought gold and gold stocks for the first time in many years in the spring of 2001, the price of gold had gone down to test its low for this bear market. But it didn't reach it, instead moving up nicely from that level. The charts looked great, finally. Also, I believe that once a stock—or any asset—gets too far above or below its 200-day moving average, it warrants a closer look. Usually, an asset will move back to that moving average. When I was starting out in this business, you heard a lot of "war talk" between fundamentalists and technicians. I always thought this was useless: both are important tools.

Van: I'm also interested in your perception of position sizing, where you have a predetermined exit point and, based upon that, you only invest a certain amount of your equity in that investment (i.e., 1 to 2%). Obviously, you didn't practice that in your initial investments. You were simply right in a big way, and everything was riding on it. I assume that after the disaster with your friend's money, you don't do that anymore? I've seen many people make $10 million disappear quickly by not having exits and practicing sound position sizing.

Chris: Yes, it is one thing to bet all your money on something when you are 16 and you have just $650. I was lucky, but I could have lost the whole thing. If that happened, well, at 16 it wouldn't have been the end of the world, and I hope that I would have

learned a valuable lesson. But it would be almost criminally stupid for someone with $10 million to bet more than a fraction of it, and perhaps just a small fraction. After all, with $10 million placed in government bonds, not just in the U.S. but in safe places like Norway or New Zealand, you can still get nearly 5%, which is $500,000 per year in income. If you can't get by on that, then something is very wrong.

So unless you have a death wish, I cannot understand not having the bulk of a fortune of that size in safe, income-producing instruments. If you don't, if you have that kind of money and still are betting a big part of it on leveraged and risky investments, what are you hoping for? To have $20 million? Do you really think your life will change because of that extra $10 million? And what if you are wrong and lose most of it?

That is not to say that you should just sit back and clip coupons. After all, there is fun and a great challenge to matching your wits with the market. Sure, if you think gold is in a new bull market and you have the opportunity to get in on the "ground floor" of a highly speculative gold property that may someday become a mine, then do it, but not with more than 1% of your money. I would only invest a grand total of no more than 2% on those kinds of speculations, but others could go as far as 5 or even 10% without arguments from me.

I hope to be around when the great companies of the world are once again great buys. At that time I will start taking chances with a big portion of my money. But even here, I will always think first: "What is the worst that can happen?" I will visualize the worst happening, and plan an exit strategy in case it does.

Chris' Advice for the New Investor

Van: If someone were starting out today and wanted to follow in your footsteps what would you recommend that they do?

Chris: I had to think hard about this one. It is not easy for me to advise other people about how they should live or what they should do. I know that when I was young, there was no shortage of people telling me what I should do. The couple of times I tried to follow that it really didn't work out well. What was right for them was not right for me. But in general I think I can advise certain things that will make it much easier for them to invest.

First, you need money to invest, and that comes from saving. In other words, stay out of debt or get out of it as soon as you can. This was even good advice in the inflationary 1970s, when non-savers used inflation as an excuse not to save. But in the deflationary 2000s, it is even better advice.

One of the quickest ways to save enough to invest is to live below your means—maybe even far below them. Look at the Chinese immigrants who moved to California. When I lived in San Francisco, next to Chinatown, I often saw many of them living in a single apartment. Now, I am not recommending that, but they did it to save money, and with that money they could invest. Of course, the tragedy was that so many of them (like the rest of Americans) invested too much in the Internet bubble.

Second, learn to visualize drastic change. In the investment and financial world, what everyone thinks is valuable today can, and usually does, change drastically tomorrow. Learn this by reading investment history. In 1949, with the Dow at 161, and having just come through a full 20 years of a horrible bear market, it would have been impossible to believe anyone predicting drastic change for the good. But they would have been right.

Just 17 years later, in 1966, the Dow would be at 1,000—a nearly 800% increase in just a few years. If you had at least visualized the possibility of drastic change—that the Dow could go down or sideways for the next 16 years—you would have been way ahead of the game. Likewise in 1982: When most everyone thought that the sideways Dow since 1966 would carry on forever, it was about to change drastically.

Then in 1999, when the Dow was at 11,700, all anyone could ever remember was a constantly increasing bull market in stocks. But if you at least visualized drastic change, you would have profited. I am not saying that you have to put everything into a completely contrarian position: There were those who got out of the markets far too early in the 1980s. But always realize that it is human nature to assume that what has been will continue. But also realize that the only thing you can be sure of is that there will be change.

Structure your investments in a way that you will continue to profit if the current trends continue, but at the same time be prepared for things to change. Use of a 25% trailing stop is instrumental in this approach.

For instance, I thought the stock market was overvalued back in 1996. So I bought a lot of bonds with much of the money I made from cashing out of my stocks. I was prepared for a drastic change: for a stock market bear.

But at the same time, I knew that I could be wrong, or even right and too early (which I was). So with a nice chunk of the money I had made from stocks, I bought income-producing real estate in the highest-quality locations. In this way, if the bull market continued, I would prosper as well.

Of course, if I had known about the trailing stops then, I would have bought even stocks I thought were too high on the chance that they would get even higher.

Likewise today, even though I think the biggest risk is continued disinflation or even deflation, I have a portion of my money in things that will do well in inflation or even if a bull market begins today.

I know that if I were younger and hungrier I would spend time in China, living there, learning the language and the literature, and of course using any advantages I had to position myself in a potentially profitable area.

Remember that we all have different advantages: The list of things that I am not good at is long. Identify the things you do very well and play to those. If you are good around people, if you write well, if you know how to rise in organizations, whatever—focus on that, and don't spend time trying to do what you are not naturally suited for.

And if a path is not working for you, visualize changing it. Consider cutting your losses just as you would do in an investment that goes wrong.

Wealth Resources—Chris' Suggested Readings to Become a Smarter Investor

Van: Are there any particular books you think new investors should read?

Chris: Going from what I just said, one that springs to mind is not an investment book. But one book that does a tremendous job in showing how drastic change can take place when you least expect it is The Count of Monte Cristo by Alexander Dumas.

There are at least four characters who undergo extremely drastic changes in their situations, each more than once. And if someone had told them what their futures would be, they would have laughed out loud. In it, the fabulous and the realistic are joined, just as they are in the markets.

A good modern novel that does the same thing in an atmosphere much more apropos to current business situations is A Man in Full, by Tom Wolfe. The title character is brought down by his debts and his hubris, but once he sees what is in his control and what lies outside of it, and once he learns to accept and even anticipate change, he rises again.

And if reading this book brings readers back to two very wise ancients, Marcus Aurelius and Epictetus, who taught these things as well, so much the better.

As to what specific investment books I have found valuable, some I mentioned earlier. But I want to say a special word about Sidney Homer's epic book, A History of Interest Rates, 2000 B.C. to the Present. I first read this over 20 years ago, at the beginning of the historic bull market in bonds, and it provided me the historical sweep that helped keep me holding bonds all the way up. I learned that major interest-rate trends, once in place, tend to stay in place until they go to extremes.

For stocks, the Graham and Dodd books are classics. But so are the works of the great Dow theorists. Robert Rhea wrote The Dow Theory: An Explanation of its Development and An Attempt to Define Its Usefulness as an Aid in Speculation.

Now, what is amazing is that this book came out in August 1932. At that time, the Dow had just touched a low of 40, down nearly 90% in less than three years. To attempt to aid anyone in stock speculation seemed crazy.

But just as Rhea's mentor William Hamilton correctly identified what he called the "turning of the tide" in a famous Wall Street Journal editorial of October 25, 1929, (four days before the October 29 crash) so too did Rhea identify how the tide was about to turn again—and a Dow at 40 would be cheap in years to come. It is all about being able to forecast change, and profit from it, or at least not letting it overwhelm you.

To sum up, and say goodbye, much of the essence of what has guided me as an investor was put by Horace, the Roman poet, nearly 2,000 years ago. I read his Odes when I was 20, and this one (ii,10) particularly “spoke to me.”

In sadness hope, in gladness fear,

‘Gainst coming change will fortify

Your breast. The storm that Jupiter

Sweeps o'er the sky

He chases. Why should rain today

Bring rain tomorrow?

Be brave in trouble; meet distress

With dauntless front; but when the gale

Too prosperous blows, be wise no less,

And shorten sail.

If you would like more information on Chris Weber or The Weber Global Opportunities Report, please call 1 866 301 2933 or e-mail customerservice@weberglobal.net