The RISK VS REWARD MANIFESTO

How to learn and use the most important investment and business skill on Earth

By Brian Hunt
CEO, InvestorPlace

According to the American Kennel Club, there are more than 200 breeds of dogs in the United States.

From large working dogs like the Saint Bernard to small "toy" dogs like the Chihuahua, there's a huge variety out there… something for everybody.

We see the same kind of variety in the investment world.

People can identify themselves as long-term buy and hold investors, short-term traders, bond investors, venture capitalists, commodity traders, real estate investors, mutual fund investors, or growth investors… and the list goes on.

Some people consider themselves a "mix" of different investment styles.

There are as many kinds of participants in the financial markets as there are breeds of dog.

Often, the argument over which approach is the best gets heated.

But whether you're a short-term trader, a buy and hold investor, a venture capitalist, a commodities trader, or a financial "mutt," we all have one thing in common…

One thing unites us all…

That's **Risk Vs. Reward**.

How you manage Risk Vs. Reward – <u>how much money you risk on investments, short-term trades, and business deals relative to how much money they can make you</u> – determines the long-term success of everyone in business or the markets.

It determines *your* success.

That's why the mastery of Risk Vs. Reward is the most important investment and business skill you'll ever learn.

The sad part is that few people ever learn how to think intelligently about Risk Vs. Reward.

It might be the most important financial skill you can acquire, but most people never "get it."

There's an old saying about playing poker:

> *If you don't know who the "sucker" is at the table – the player the pros are about to eat alive – after the first minute of the game, the sucker is you.*

Unfortunately, *most people are suckers*.

That's why the owners of Las Vegas casinos and Wall Street investment banks are among the richest people on Earth. That's why they own much of the most desirable, most valuable real estate on Earth.

These businesses are **MASTERS** of Risk Vs. Reward… which makes them "black holes" that vacuum up the savings of those who do not understand Risk Vs. Reward.

It's sad, but true.

That's the bad news about Risk Vs. Reward.

The good news is that mastering Risk Vs. Reward isn't all that hard or time consuming.

You can easily become a miniature version of a Las Vegas casino or a Wall Street shark – someone who wins in business and the markets year in and year out – with incredible consistency.

This short guide will show you how.

As you'll learn in a moment, **there are five very simple, very powerful tools** you can use to master Risk Vs. Reward and consistently win in business and the markets.

Before we cover those tools, let's quickly discuss the mindset of a Risk Vs. Reward Master.

How the World's Greatest Investors Think About Risk Vs. Reward

At the core of Risk Vs. Reward mastery is a laughably simple concept.

Here it is…

In every business deal, every investment, every short-term trade, and every situation that involves the potential for you to earn or lose money, you want to MAXIMIZE your POTENTIAL UPSIDE while MINIMISING your POTENTIAL DOWNSIDE.

A Risk Vs. Reward Master is obsessed with that concept.

She wants to MAXIMIZE her POTENTIAL UPSIDE while MINIMIZING her POTENTIAL DOWNSIDE.

She is fanatical about studying the potential risks and rewards of every situation… and she is fanatical about always getting into situations that offer massive upside but minimal downside.

Risk a little… make a lot.

Rinse and repeat… and build wealth.

I told you mastery of Risk Vs. Reward was a laughably simple concept.

Now, risk and reward are topics most people are familiar with.

However, the way most think about Risk Vs. Reward is ALL WRONG.

They spend all their time focusing on the wrong side of it the equation.

Most people spend 100% of their time as an investor thinking about how much they can win… **which is why they lose.**

Most people place all their focus on the potential **upside** of an investment or trade.

This is why they lose.

They're always thinking about the big profits they'll make in the next great growth stock, in an exciting short-term trade, or in a share of their brother's new restaurant.

They <u>don't think for a second</u> about how much they stand to lose if things don't work out as planned or if the best-case scenario doesn't play out.

On the other hand, the intelligent investor or trader – the pro – is always focused on **how much money he could potentially lose** on a stock, a private deal, a trade, a bond, or a piece of property.

<u>He is always focused on risk.</u>

We've found – through years of investing our own money and by studying very successful businesspeople and great investors – that when presented with an idea, the great investor reflexively asks early in the discussion, *"How much can I lose? What happens if things don't go as planned? What's the downside?"*

Only after he has measured and addressed the risk – the amount he could lose – can the pro move on to the fun stuff... making money.

The novice investor never thinks about the worst-case scenario, so he never plans for it, doesn't know how to handle it, and gets killed.

Again: When you're thinking about investing in a business or placing a short-term trade, your concern should always be, *"How much can I lose? What happens if the best-case scenario doesn't pan out?"*

When you focus on limiting your downside, the upside practically takes care of itself.

But don't just take my word for it…

Two of the greatest financial minds in history – Warren Buffett and Paul Tudor Jones – think the same way.

Warren Buffett is probably the greatest investor of all time. He's worth over $70 billion thanks to his ability to analyze businesses and investments.

When people ask Buffett about the secret of his success, he doesn't talk about balance sheets or earnings or cash-flow analysis.

Instead, Buffett says his first rule of investment is **"Never lose money."**

And Buffett's second rule of investment?

"Never forget rule one."

In other words, Buffett is the richest, most successful investor in history because <u>he is first and foremost concerned with **risk**, not reward</u>.

The first thing Buffett recommends to folks who want to make money in the market is to not lose money in the market. He's obsessed with finding out how much he could potentially lose on a stake.

Once he's satisfied with that, only then does he look at what the upside is.

In a moment, we'll cover how Buffett limits his risk.

But let's talk about Paul Tudor Jones for a moment.

Paul Tudor Jones is one of great short-term traders of all time, with a net worth in the billions. He's considered one of the greatest financial minds in U.S. history.

Jones' interview in the fantastic book *Market Wizards* is one of the most important things any investor or trader can read.

Reading the interview will take you less than 10 minutes... and it might provide you with the greatest ratio of *"time put in versus value received"* of anything you've done in your life.

Jones' interview is filled with statements that show he's a man obsessed with **not losing money**. He's obsessed with risk.

For a guy associated with "winning" so much, Jones constantly talks about losing... he constantly talks about "playing defense" and protecting his money.

There's a comment on playing defense – limiting risk – on nearly every page of Tudor's famous interview in *Market Wizards*.

Here are the best ones:

- **Don't focus on making money. Focus on protecting what you have.*
- **I know that to be successful [in trading], I have to be frightened.*
- **I am always thinking about losing money as opposed to making money.*
- **Risk control is the most important thing in trading.*
- **Never play macho man with the market.*
- **The most important rule of trading is to play great defense, not great offense.*

It's incredible… one of Wall Street's most famous "winners" focuses most of his time and energy on "not losing."

If you tape Buffett's quote where you'll see it every day... and if you read Jones' interview once per month... and if you learn to reflexively ask yourself, *"How much can I lose?"* before moving forward with any trade or investment, you'll set yourself up for a lifetime of great financial decisions.

That mindset – an obsession with loss and the limitation of it – is the mindset of masters. You win by not losing.

It's not terribly exciting… but if you can't get on board with it, you're better off forgetting the markets exist and keeping your money in the bank.

Your Five Most Important Tools for Mastering Risk Vs. Reward

Now that you know how masters like Warren Buffett and Paul Tudor Jones think, you're ready to put that thinking into action.

You're ready to learn the five most important tools in a Reward Vs. Risk Master's toolbox.

The first tool is **asset allocation**.

In the investment world, the art of "stock picking" gets most of the press.

People love to learn about interesting stocks with huge potential. The mainstream financial media constantly reports on individual companies and their stock prices.

However… when it comes to successful investment and Risk Vs. Reward mastery, **asset allocation** is 100 times more important than stock picking.

Asset allocation is the part of your investment strategy that dictates how much of your money you place in broad asset classes like stocks, bonds, cash, cryptocurrencies, precious metals, and real estate.

Over the course of your career as an investor, asset allocation will have a MUCH greater impact on your wealth than stock picking will have.

The ratio will be at least 100 to 1.

Since many individual investors spend their time studying and investing in individual stocks, they don't spend any time learning what sensible asset allocation is.

This leads them to take crazy risks with their retirement savings.

The most important aspect of asset allocation is using it to **diversify** your holdings across private businesses, public stocks, real estate, precious metals, cash, insurance, and other financial vehicles.

Intelligent asset allocation is like having a "balanced investment diet."

Ideally, you want a diversified mix of assets that greatly limits your exposure to a big decline in one asset class.

Intelligent asset allocation means you DON'T bet the farm on a single stock or a single asset class.

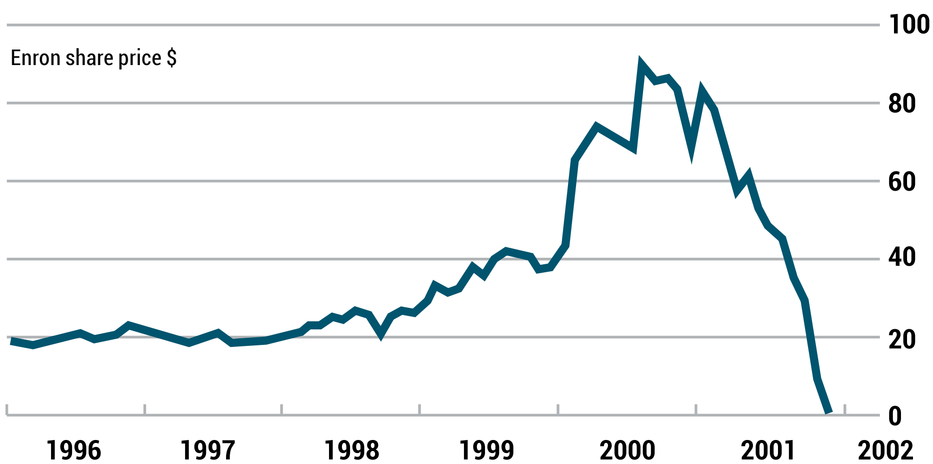
For example, there's the story about the catastrophic losses suffered by Enron employees.

In the late 1990s, Enron was considered the world's most innovative company. Its executives were the superstars of corporate America. So, some Enron employees placed all their retirement savings in Enron stock.

Their asset allocation was "100% Enron."

When Enron was revealed as one of the biggest frauds in American history, its stock went to zero. The employees who bet the farm on Enron were completely wiped out.

ENRON GOES TO ZERO



Source: Thompson Financial Datastream

These people used absolutely horrible, incredibly risky asset allocation.

Or consider Americans who went "all in" on real estate in 2005 and 2006.

Back then, real estate mania was in full force. Real estate was considered a "can't lose" bet. So, many people put all their savings into real estate… and even took on loads of debt to "leverage" their returns.

When the real estate market crashed, these "all in" real estate players were wiped out.

At the heart of their downfall was absolutely crazy asset allocation.

They bet the farm on one asset class… and it was in a bubble.

If you keep a huge portion of your wealth in a single asset class – whether it's stocks, bonds, oil, gold, real estate, or whatever – you leave yourself exposed to a large decline in the value of that asset class.

You make yourself financially "fragile."

You can leave yourself exposed to what happens with just one business, one stock market, or one asset class.

To be clear, many of history's biggest fortunes were built with big bets on one single business. These are called "concentrated bets."

For example, Bill Gates went "all in" on Microsoft… and it made him a billionaire.

But if you're an individual investor who has worked and saved over a long life and built up a lot of savings, it makes great sense to diversify your wealth across large blue-chip stocks, small-cap stocks, cash, gold, real estate, bonds, and other investments.

It makes sense to stay low on the risk ladder and focus on "preserving" wealth through intelligent diversification instead of making aggressive and risky "all in" bets.

By diversifying your portfolio with a mix of assets – some of which "zig" when others "zag" – you can build a crisis-proof financial fortress that looks something like this:

To be clear, there's no "one size fits all" asset allocation strategy that is right for everyone.

When you (possibly with the help of a financial adviser) think about your right "mix," you must consider your age, your risk tolerance, and your goals.

A 55-year-old who wants to pay college tuition for three children will think about asset allocation much differently than a 32-year-old with no family.

Whatever asset allocation mix you choose, just make sure you're not at risk of being wiped out by a crash in a single business or asset class.

This will ensure a long and profitable investment career… and increase your mastery of Risk Vs. Reward.

Your second tool will increase it even more…

Position Sizing: Your Second Tool for Mastering Risk Vs. Reward

Most of us have been there…

You learn about a company with stunning growth potential.

The upside is more than 500%.

So, you buy A LOT of the stock. You want to truly capitalize on the opportunity.

And then, things don't work out.

The company doesn't execute. Instead of its market value soaring 500%, its market value falls 30%.

You've lost way more money than you're comfortable losing. It's an embarrassing and painful experience.

This is where smart position sizing comes in.

It's the great preventer of unacceptably large losses.

<u>Position sizing is the part of your investment strategy that dictates how much of your investable assets you will place in an investment or a trade</u>

For example, suppose an investor has a $500,000 net worth.

If this investor buys $5,000 worth of a business, his position size would be 1% of his total capital.

If the investor buys $50,000 worth of the business, his position size is 10% of his total capital.

If the investor buys $200,000 worth of the business, his position size is 40% of his total capital.

Many folks think of position size in terms of how many shares they own of a particular stock or investment.

But smart investors think in terms of what percentage of their net worth is in a particular holding.

Position sizing is one of most important ways you can protect yourself from what is known as a "catastrophic loss."

A catastrophic loss is the kind of loss that erases a huge chunk of your net worth. It's the kind of loss that ends careers and ruins retirements.

Most catastrophic losses occur when an investor takes a much larger position size than he should. He will find a stock he's really excited about, start dreaming of the potential profits, and then make a huge bet.

He'll place 20%, 30%, 40% or even 100% of his net worth in that one idea.

He'll "swing for the fences" and buy 2,000 shares of a stock instead of a more sensible 300 shares.

When the investment doesn't work out, he gets killed.

The direct damage caused by the catastrophic loss is financial.

An investor who puts $100,000 into a trade and suffers a catastrophic 80% loss is left with $20,000.

It takes most people years to make back that kind of money.

But the less obvious, indirect damage is worse than losing money. It's the mental trauma of taking such a huge loss… and feeling like a failure.

Some people never recover from it. They see years of hard work and savings flushed down the toilet.

Most world-class investors say to never put more than 10% of your portfolio into any one position. Some professionals won't put more than 5% in one position.

Seasoned investors vary position sizes depending on the particular investment.

For example, when buying a safe, cheap dividend stock, a position size of up to 3% may be suitable.

Some managers who have done a lot of homework on a stock and believe the risk of a significant drop is tiny will even go as high as 10% or 20% – but that's more risk than the average person should take on.

If you're investing money into a startup business, a speculative stock, an option position, or anything else that is on the riskier end of the spectrum, the answer to *"How much can I lose?"* is usually, *"Every single dollar."*

That's why speculative situations are best played with tiny amounts of your capital. Or, if you're a conservative investor, not played at all.

But… let's say you just have to invest in a speculative situation.

Let's say you're buying a speculative gold-mining stock or a speculative tech company with just one potential "big hit" product.

With speculative investments, there is always the possibility that you could lose 100% of your money.

So, you want to use a tiny position size.

Generally, you don't want to place more than 0.5% or 1% of your net worth portfolio into a speculative investment.

That way, if the situation works out badly, you lose only a little bit of money.

You certainly don't want to put 5% or 10% or 25% of your net worth into a speculative investment. It's far too risky.

Unfortunately, most novices will risk three, five, or 10 times as much as they should in speculative investments.

It's a recipe for disaster. If the investment doesn't work out as planned or if the broad stock market suffers a big correction, a big position in a speculative investment causes a big hit to a person's overall wealth.

When in doubt, always dial down your position size. It will help you follow Warren Buffett's most important rule (don't lose money)… and it will help you avoid catastrophic losses.

When you start as an investor or trader, you're as bad as you're going to get. So take legendary trader Bruce Kovner's advice and "under trade, under trade, under trade."

Make much smaller investments than your emotions want you to make.

Make small investments to get the hang of things. If you have $10,000 to get started with as an active investor, set aside $7,000 and invest with $3,000 for the first six to 12 months.

But even after going through a training period like this, it's tough to learn not to lose money until you feel the pain of losing a lot of money.

It took me touching several very hot stoves and suffering several big losses early on in my career before I learned this.

In summary: If you want to master Risk Vs. Reward, you must learn how to **win big by betting small**.

Focus on using smart **position sizing** to avoid catastrophic losses.

Focus on limiting your downside… and the upside practically takes care of itself.

Stop Losses: Your Third Tool for Mastering Risk Vs. Reward

When it comes to limiting risk, the powerful tool known as "stop losses" can work hand in glove with position sizing to greatly increase your odds of success in the markets.

A stop loss is a predetermined price at which you will exit a position if it moves against you.

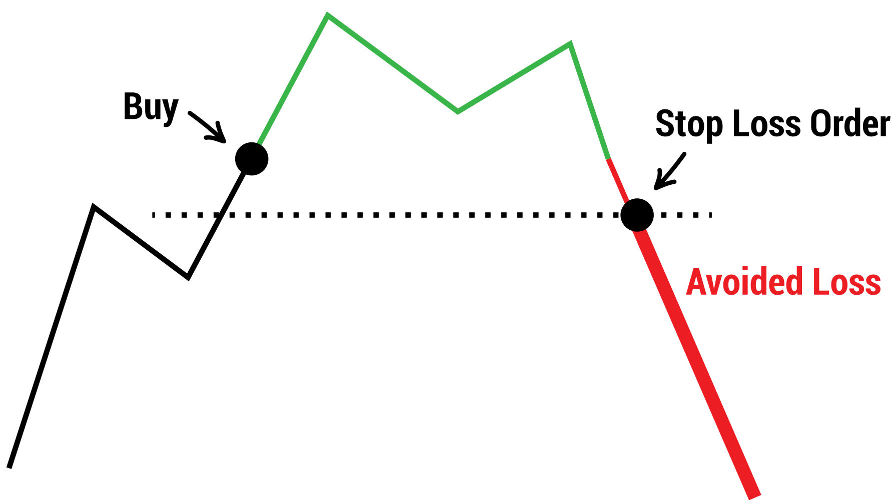
It's your "say 'uncle'" point. It's when you say, "Well, I'm wrong about this one, time to cut my losses and move on."

Most people use stop losses that are a certain percentage of their purchase price.

For example, if a trader purchases a stock at $10 per share, he could consider using a 10% stop loss.

If the stock goes against him, he would exit the position at $9 per share... or 10% lower than his purchase price.

If that same trader uses a stop loss of 25%, he would sell his position if it declined to $7.50 per share, which is 25% less than $10.



Generally speaking, a stop loss of 5% is considered a "tight stop" – one that is close to your purchase price – and a 50% stop loss is considered a "wide stop" – one that is a long way from your purchase price.

Combining intelligent position sizing with stop losses will ensure you a lifetime of investing success.

To do this, we need to get familiar with something we call the "risk level."

Your risk level (RL) is the amount of money you will "risk" on any one given investment.

It can serve as the foundation of all your position-sizing strategies.

For example, let's say there's an investor with a $100,000 account. His name is Joe.

Joe believes Company ABC is a great investment and decides to buy it at $20 per share.

But how many shares should he buy?

If he buys too many, he could suffer a catastrophic loss if an accounting scandal strikes the company.

If he buys too little, he's not capitalizing on his great idea.

Here's where intelligent position sizing comes into play.

Here's where the investor must calculate his RL.

RL is calculated from two other numbers.

One is total account size.

In this case, it's $100,000.

The other number is the percentage of the total account you'll risk on any given position.

Let's say Joe decides to risk 1% of his $100,000 account on the position.

In this case his R is $1,000.

If he decided to dial up his risk to 2% of his entire account, his R would be $2,000.

If he was a novice or extremely conservative, he might go with 0.5%, or an R of $500.

Joe is going to place a 25% protective stop loss on his ABC position.

With these two pieces of information, he can now work backward and determine how many shares he should buy.

Remember... Joe's RL is $1,000, and he's using a 25% stop loss.

To calculate how large the position will be, the first step is to always divide 100 by his stop loss.

In Joe's case, 100 divided by 25 results in 4.

Now, he performs the next step in figuring his position size.

He then takes that number – 4 – and multiplies it by his RL of $1,000.

4 times $1,000 is $4,000, which means Joe can buy $4,000 worth of ABC stock... or 200 shares at $20 per share.

If ABC declines 25%, he'll lose $1,000 – 25% of his $4,000 – and exit the position.

That's it.

That's all it takes to combine stop losses and intelligent position sizing to limit risk.

Here's the calculation again:

> 100 divided by your stop loss equals "A."
>
> "A" multiplied by "RL" equals position size.
>
> Finally, position size divided by share price equals the number of shares to buy.

Now... what if Joe wants to use a tighter stop loss – say 10% – on his ABC position?

Let's do the math...

> 100 divided by 10 equals 10.
>
> 10 multiplied by $1,000 equals $10,000.
>
> $10,000 divided by the same $20 share price equals 500 shares.

You can see that using a tighter stop loss with the same RL allows Joe to buy a larger number of shares, while risking the same amount of his total account... $1,000.

Next, let's say Joe wants to use a super-tight stop loss of just 5% on his position.

In this case, if ABC declines just 5% to $19 per share, he's out of the trade.

This tighter stop loss means he can buy even more shares.

Let's do the math again...

> 100 divided by 5 equals 20.
>
> 20 multiplied by $1,000 equals $20,000.
>
> $20,000 divided by the $20 share price equals 1,000 shares.

Again, a tighter stop loss with the same RL of $1,000 means he can buy twice as many shares and still risk the same amount of his total account.

As you can see, you can use the concepts of position sizing and stop losses to determine how much of any asset to buy... from crude oil futures to currencies to microcaps to Microsoft.

If you're trading a riskier, more volatile asset, the stop-loss percentage should typically increase and the position size should decrease.

If you're investing in a safer, less volatile asset, the stop-loss percentage should decrease and the position size should increase.

To be clear, you DON'T have to use stop losses with your investments.

You can simply use no stops but small position sizes.

If you put on a $5,000 position with no stop loss, you're taking on the same amount of risk as if you put on a $10,000 position with a $5,000 stop.

You're risking $5,000 either way.

Many professionals combine no stops and small position sizes with riskier, more volatile investments, like private companies, microcap stocks, options, and cryptocurrencies.

We recommend you think about doing the same!

Bargain Hunting: Your Fourth Tool for Mastering Risk Vs. Reward

It's a quirk of human nature that has amazed financial advisers and top investors for generations…

When the average guy wants to buy a new vehicle, he'll spend hours studying cars and trucks. He'll carefully weigh the benefits and prices of each potential purchase. He'll pit sellers against each other and get them to compete for his business. He'll dig in his heels and haggle over features and the price.

He'll do the same with shoes, computers, and houses.

After all, when you buy things, you don't want to pay stupid prices.

You don't want to overpay and embarrass yourself by getting ripped off.

Yet... when people invest in the stock market, the idea of paying a good price is often discarded.

The average guy gets excited about a stock story he reads in a magazine... or hears how much his brother-in-law is making in a stock… and he just buys it.

He doesn't pay any attention to the price he is paying or the value he is getting for his investment dollar.

It's a shame… <u>because the price you pay is a critical part of mastering Risk Vs. Reward.</u>

Like many investment concepts, it's helpful to think of it in terms of real estate...

Let's say there's a great house in your neighborhood.

It's an attractive house with good, modern construction and new appliances. It could bring in $24,000 per year in rent. This is the "gross" rental income... or the income you have before subtracting expenses.

If you could buy this house for just $96,000, it would be a good deal. Because $24,000 goes into $96,000 four times, you could get back your purchase price in gross rental income in just four years.

In this example, we'd say you're paying "four times gross rental income."

Now... let's say you pay $480,000 for that house.

Since $24,000 goes into $480,000 20 times, you would get back your purchase price in gross rental income in 20 years.

In this example, we'd say you're paying "20 times gross rental income."

Paying $480,000 is obviously not as good a deal as paying just $96,000.

Remember, in this example, we're talking about buying the same house… and the same amount of rental income.

In one case, you're paying a good price. You're getting a good deal. You'll recoup your investment in gross rental income in just four years.

Said another way, your "payback period" is four years.

In the other case, you're paying a lot more. You're not getting a good deal. It will take you 20 years just to recoup your investment.

Your "payback period" is five times longer.

<u>And it's all a factor of the price you pay.</u>

This concept works the same way when you invest in any business, public or private.

Let's say a potato chip maker, Premium Snacks, generated $2 million in profit last year.

If you buy Premium Snacks at a market value of $12 million, you're paying six times earnings.

If you buy Premium Snacks at a market value of $40 million, you're paying 20 times earnings.

If you buy Premium Snacks at a market value of $100 million, you're paying 50 times earnings.

The market is made up of people. And remember, people act crazy from time to time.

One month, the market might set the price of Premium Snacks at \$6 million.

The next month, it might set the price of Premium Snacks at \$8 million or \$10 million.

I know that sounds like a wide range of prices, but you see these ranges in the stock market all the time. People are willing to pay different prices for different businesses at different times.

The amount people are willing to pay for a company's earnings is often called the "price-to-earnings multiple," or simply "the multiple."

In this example, it's a much, much better deal to buy shares of Premium Snacks when the market is valuing it at \$12 million – or at a price-to-earnings multiple of 6 – instead of buying shares when it is valued at \$100 million – or a price-to-earnings multiple of 50.

You get more value for your investment dollar. You're buying shares in a cash-producing enterprise for a lot less.

In your quest to master Risk Vs. Reward and limit your downside, your goal is to buy assets at bargain prices... and to avoid buying assets at bloated, expensive prices.

<u>It's vitally important to know that buying a stake in a great business can turn out to be a terrible move if you pay the wrong price.</u>

Let's go back to Premium Snacks. It has a good brand and good profit margins. It's steadily growing. And remember, it does \$2 million in annual profit.

If you buy an ownership stake in Premium Snacks at a market value of $200 million, you're paying 100 times earnings.

This is an extremely expensive price.

Your only shot at making money in this example is if someone else comes along and is willing to pay an even crazier price than you did.

While this "waiting for a greater fool" can work occasionally, it's generally a losing strategy. The regular investor will never be able to make it work.

What often happens is that the company keeps doing well, but the multiple people are willing to pay returns to more normal levels.

In a case like this, the company can keep increasing its profits, but the share price will plummet. It can fall 50% or 75%.

I know this sounds extreme, but it's exactly what happened during and after the 1999–2000 stock market peak.

Back then, good companies with solid future prospects – like Walmart and Microsoft – traded for 50, 60, even 90 times earnings.

People who purchased shares back then paid stupid prices. They had stock market bubble fever. They didn't focus on getting good value for their investment dollars.

Because many stocks with good business models were so overvalued, their share prices crashed in 2000 and went nowhere for years.

However, the underlying businesses were still sound. The businesses were still growing and producing profits.

But the stock prices got so out of whack that investors who overpaid suffered horribly. It took a long time for the stocks to “work off” their extremely overvalued states.

For example, in 1999, Walmart traded for more than 50 times earnings. It spent more than a decade “working off” that overvaluation. While it “worked off” the overvaluation, shares did nothing.

<u>Folks who bought Walmart back in 1999 didn’t make any money for more than a decade.</u>

The company itself did fine... but shareholders who bought the stock at stupid prices suffered for a long time.

If you can buy a great business for 10 times earnings, it’s a good deal.

But if you pay 50- or 7-times earnings for it, you’re bound to be disappointed.

This concept is so important I’ll state it again: *If you overpay, you can buy a great company and make a terrible investment. You can get into an investment where the potential risk outweighs the potential reward.*

A strict policy of only buying bargains is one of the cornerstones of Warren Buffett's approach.

It's how he generated some of the largest, most consistent returns in the history of capitalism.

The key takeaway here is that we must view our investment purchases just like we would view buying a house or a car or a phone or groceries.

Don't be a sucker and overpay.

Make sure you get good value for your investment dollar.

<u>Tilt Risk Vs. Reward in your favor and hunt for bargains.</u>

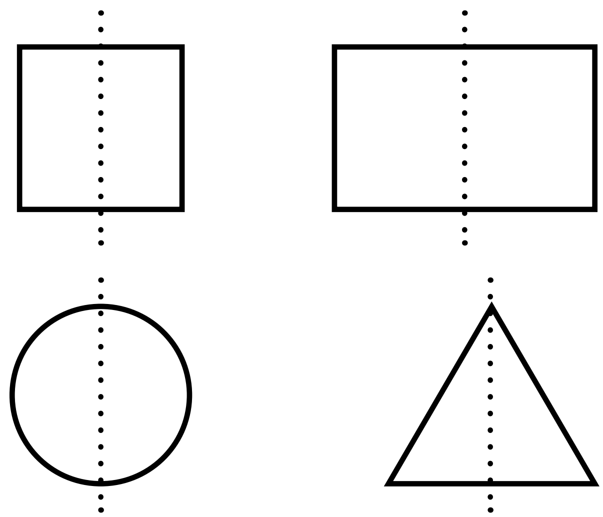
Asymmetric Bets: Your Fifth Tool for Mastering Risk Vs. Reward

Among the world's best, most elite money managers, there is an obsession with "asymmetry."

You probably learned about opposite of asymmetry – symmetry – in grade school.

When the parts of something have equal form and size, they are said to be symmetrical.

For example, cut some shapes in half, and the two parts are symmetrical.



In many areas of your life, symmetry is attractive.

The more symmetrical someone's face is, the more attractive they are typically considered to be. Symmetry can be pleasing in art and architecture.

But when it comes to the financial markets, experts avoid symmetry.

To put it bluntly, symmetry is for chumps.

When it comes to Risk Vs. Reward mastery, symmetry is the opposite of what we are looking for in our portfolios.

Expert investors and speculators seek asymmetry in virtually all the positions they take.

An asymmetric "bet" is when the potential upside of a position is much greater than its potential downside.

If you risk $5,000 for the chance of making $100,000, you make an asymmetrical bet.

If you risk $5,000 for the chance of making $5,000, you make a symmetrical bet.

Although this concept is common sense, the vast majority of investors fall into the trap of making symmetrical bets in the stock market.

Many investors routinely risk 100% of their money in the pursuit of 100% returns.

Or even worse, they risk 100% of their money in the pursuit of 50% returns.

For example, many folks will buy a stock someone touts as having "100% upside," and they'll be willing to ride the stock to zero (a 100% loss) if things don't pan out.

100% upside.

100% downside.

Symmetry.

Now, risking a dollar to make a dollar might sound fine to most folks.

But Risk Vs. Reward Masters know there is a much, much better way to think about risk and reward… a much better way to tilt the odds in your favor.

An investment or trade with symmetrical risk/reward potential actually gives you horrible odds… the odds you'll find in casinos or in the bets drunken sports fans make between themselves.

Most people don't understand why those odds are so bad, and it kills them in the financial markets.

The world's best traders and investors almost never touch positions with symmetrical risk/reward profiles.

The world's best traders and investors look for opportunities where they can risk $1 for the real chance of making $5… $10… even $20.

Risk a little…

… in the pursuit of earning big rewards.

That's the power of asymmetric bets.

When a trader learns this concept, they ascend to a higher level of understanding and success in the markets.

It is a key part of "graduating" to Risk Vs. Reward mastery.

Summary

Over the course of a 50+ year career, the legendary trader George Soros made more than $20 billion in the financial markets.

Soros is a genius at knowing how government actions affect markets. He's skilled at finding industries poised to boom.

But there's a simple mindset that's more responsible for Soros' success than either of those things. Soros once summed it up like this:

> *It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong.*

That's another way of saying **you must master Risk Vs. Reward**.

If you want to build a successful career, a successful business, or a successful investment portfolio, you must consistently get yourself in situations where your potential upside far exceeds your potential downside.

Although you can employ many different kinds of investment and trading strategies, achieving success with any of them comes down to mastering Risk Vs. Reward.

You name the strategy… and Risk Vs. Reward dominates it.

That's why mastery of Risk Vs. Reward is the most important investment skill you'll ever learn.

I hope you use the knowledge in this guide to build a lifetime of financial freedom and abundance.

Regards,

Brian Hunt
CEO, InvestorPlace