UNBOUNDED WEALTH
12 Simple Steps to Break Free of “The Man” and Live Life on Your Own Terms

UNPUBLISHED CHAPTER

JOHN DEL VECCHIO
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I was still a little bit groggy. I had been traveling about 24 hours. This place was a lot farther away than I had imagined when I planned my trip. When the plane passed by Italy, there was still hours left to go. It felt like I’d never get there.

But then, I finally arrived.

Once I settled in to my destination, I sat on the balcony of my apartment rental and saw a wondrous sight.

The year was 2004. I was in Greece for six weeks. Home base was Naxos, the largest of the Cyclades islands. On the horizon was the Portara, an ancient ruin, in near perfect condition. But what struck me the most was the perfection of the Aegean Sea. From a distance, it was hard to tell where the sea and sky convened. I had never seen a blue that blue before.
Later, when I accidentally spent the day at a nude beach (way overrated), I took a dip in the sea. As I waded out into deeper water, I was blown away that I could still see down to my toes. Six feet deep, crystal clear.

The beauty ended there, however. While the atmosphere was amazing, the Greek economy was teetering on its edge. Under the surface, Greece was having a lot of troubles.

The first sign for me was beer. My buddy owned a restaurant on the island, and they only served three types of beer: Amstel, Heineken, and Mythos. When Greece became part of the European Union, it gave up its own currency in exchange for the Euro.
That created big problems. The price of beer went from $0.50 to $2.50 overnight.

You see, lots of people from Europe go to Greece on holiday. Folks from Germany, with a strong currency, could go to Greece, soak in the sun, lay on beautiful beaches, and eat great food on the cheap. Greece’s currency was priced much less than many other currencies in the region. They wanted it that way. Tourism is big business in Greece. A cheap currency brings lots of people from all over to enjoy a wonderful holiday without breaking the bank. All in all, a win-win.

When the Euro came, that all changed, and people stopped coming to Greece. Sadly, my buddy’s restaurant eventually shuttered. The food was amazing. The atmosphere was great. What’s better than sipping some local wine overlooking the Aegean Sea at sunset without a care in the world? It didn’t matter. The Euro currency killed the experience.

Eventually, the Greek economy imploded as well. There was a lot of civil unrest in Greece. Unemployment exploded. The economy faced austerity measures. It was a wreck.

The situation in Greece was a full-blown crisis. If you’re like most people, you’d run away from a crisis. It’s only natural. Who wants to walk into a situation where there’s unrest or violence?

Crisis scares people away. But that’s when the savviest investors make their biggest pile of cash – at lower than average risk.

As the famous banker Baron Rothschild once said, “Buy when there’s blood in the streets, even if the blood is your own.”
Rothschild made a fortune in the panic after the Battle of Waterloo against Napoleon.

That got me thinking. Could we earn even better returns by running into the fire instead of away from it?

The beauty of markets today is that there are so many different investment opportunities available to the average person. If a crisis occurred in the 1970s or 1980s, it would be impossible for the average person to try to profit from it.

Back then it was just too hard to trade anything but the very basic markets. Today, that is no longer the case. With exchange traded funds and access to global markets today, all sorts of investments are available at our fingertips.

And, here’s the thing: There’s always a crisis somewhere.

The Greek example is not unique. It happens all the time. The world is a big place. There is no shortage of fires raging in financial markets. There’s also never been an easier or better time to take advantage of those fired to amp your returns. Crisis creates opportunity. We can profit from it, big time. We just have to keep our eyes and ears open.

Most investors in the United States don’t look beyond our own borders. We hold mostly U.S. stocks. That’s natural. We invest in what we know. We own Apple, Netflix, Amazon, and Disney. Those stocks are easy to understand. We use their products. Those stocks have done well.

The world is a big place, however. In fact, I’d argue the world is flat. Here’s what I mean: When I was an intern in college, I worked for a famous stock market investor and researcher named
James P. O’Shaughnessy. He wrote an investment classic called *What Works on Wall Street*. The research in the book went back to the 1950s and covered U.S. markets.

Back then, we had a 1 gigabyte computer in the office. It was an ugly grey box like computers were back then. But it might as well have been a Cadillac. A 1 gigabyte computer was powerful. Expensive, too. As I recall, the whole set-up was around $10,000. It was more powerful than the average person had. By a long shot. What’s more, we were the only people in the world with data tapes that went back to the 1950s. So as we did research, we had a massive edge: a powerful computer with access to data not available to others lead to a huge competitive advantage.

Today, virtually anyone in the world can get access to this information. A couple of years ago, I was in Thailand in Pong, Phayao. It’s not a well-traveled area by foreigners. There was a 7-Eleven selling 16 gigabyte thumb drives for just a few Baht, literally pennies.

All over the world, people can access market data going back decades for free. Just go to a library.

Edges that existed 25 years ago no longer exist today. Someone in India can easily compete with someone in the U.S. That level playing field makes the earth flat from a business standpoint in my view.

Given how easy it is to access information beyond our borders, we are silly to ignore it. There’s plenty of opportunities outside our shores that have offered faster and bigger gains at lower risk.

The big opportunities are overseas.
These are truly life-changing investment opportunities.

Most U.S. investors aren’t positioned to take advantage of those opportunities. According to Forbes, the average U.S. investor has about 15% allocated to international stocks. Sure, that’s up from 5% in the 1980s, but it’s still not enough.

Studies show that you can improve returns and lower risk by a few percentage points a year by adding foreign stocks. Over a long period of time, that will add up to a much bigger bankroll for yourself.

I would argue you should not buy just any international stocks; you should buy the ones in crisis mode.

Consider Russia. When I was starting my career on Wall Street, a
good friend of mine connected me to a buddy who helped launch the first Russian focused hedge fund. In 1998, the Russian market tanked, taking the economy and stock market with it. This Russian hedge fund really took it on the chin. But that’s when the going was just getting good. After suffering a 90% loss, they made back all that money and then some.

For those of you like me that didn’t score perfect A’s in high school math, if you take a 90% loss, you need to make a 1,000% return to get back to even. In the depths of a crisis, returns in Russia were well over 1,000%. That’s real money.

Of course, just blindly investing in countries because there’s a crisis going on is dangerous work. It’s potentially hazardous to our wealth. Greece imploded. Then it imploded some more. For example, in 2008, the Greek market tanked 66%. Greece’s stock market rebounded in 2009 by 25% before nose diving 45% and 63% in 2010 and 2011, respectively. Greece might turn out to be the next Russia: turn around, and produce 1,000% gains from here with relatively low risk. But, it also might not.

Other countries like Ireland that appear “safer” might also look tempting. Ireland looks safe because the culture is reasonably similar to here in the U.S. Without knowing it, we likely have a bias to investing in Ireland and staying away from a place like India. That would be a huge mistake.

Investing in Ireland would have picked your pocket clean. In 2008, the Irish market sunk 72%. Even before the global financial crisis, the market tanked 20% in 2007. Ireland’s market hasn’t fully recovered by a long shot. No 1,000% return there!
Clearly these countries should be on our crisis monitor. Our ears and eyes open. But how low can it go? Poor performance might lead to more poor performance. Again, just blindly buying a country because its down isn’t the best way to reap huge rewards.

But there is a way to substantially juice our retirement account by sniffing around crisis opportunities. In chapter 6, while talking about the George Costanza School of Investing, I briefly allude to the case of Sir John Templeton. One of the greatest trades ever was the Templeton trade. It was 1939. The Germans were advancing rapidly through Europe. Naturally, there was a very real fear that the Germans would take over all of Europe. As the Germans advanced through Europe, bad things happened. Markets got scared. The stock market plunged.

The Germans overpowering other nations and wresting control of those countries was a true crisis, but when markets get scared, they tend to overshoot. There’s a lot of overreaction. It’s like anything else in life: When there are a lot of sellers and no buyers, prices fall way more than they reasonably should.

In that moment of fear and desperation, Templeton saw an opportunity to make his fortune. It turned about to be a high reward/low risk opportunity following very simple guidelines: he simply bought 100 shares of every stock trading below $1 a share.

That’s it. Nothing fancy. He didn’t even need a calculator.

The result? A 400% return in five years. Sir John had made his first fortune.
Ever since I heard that story, I have been inspired by Sir John. It’s one of the most famous examples of making a fortune in crisis investing. Templeton had brass balls to plunk down a bunch of money in the middle of a crisis and buy stocks that had been clobbered. He also had supreme confidence to ride the ups and downs to fortune, as about 1/3 of the stocks he invested in went bankrupt.

He also knew the math; he could take the punches and watch stocks go to zero if he had a few huge winners. That’s what happened, and he walked away with his first load of cash.

Here’s the thing: A dollar ain’t what it used to be. Obviously, a dollar today is worth a lot less than a dollar in 1938. Second, we can improve on just buying every stock.

Sure, buying every stock is simple, and simplicity is underrated. But it also may not be practical. There are thousands of low-priced stocks.

We can, however, use the Templeton trade as an inspiration to come up with a new and different method. In fact, that’s something I just did.

Here’s a breakdown of the methodology.

First, screen for ADRs under $5 a share. An ADR is an American Depository Receipt. In simple terms, you can easily buy foreign stocks here in the U.S. Therefore, you won’t need a special account or travel to a far-flung place to get your investment bet down.

I chose under $5 a share because I want stocks in crisis mode. Under $5, big institutional investors don’t play. The stocks are too
small or a big investor needs to buy too many shares. This is where there’s a big edge for the little guy versus big market players. Use it to your advantage.

So, now we can profit from foreign stocks in crisis mode from the comfort of our own home.

Next, instead of buying all the stocks like Templeton did, we can run a few more screens. This will boost our odds of winners. For example, we demand that the stocks are cash flow positive. If companies are under pressure but still generating cash flow, there’s better chances they can weather the storm. The companies need free cash flow to reinvest in their business or buy back cheap stock.

After that, we want to see companies with revenues on the mend and starting to grow. We want to see cash flow growth. We combine that with lower volatility so that the moves in the stock aren’t too insane on a short-term basis.

Finally, we want analysts warming up to the stock. Wall Street analysts are like sheep. They move in the same direction. When analysts get excited about a stock, they will increase their target prices. But they do it slowly, so if you can get in just as analysts are changing their opinions on a stock, you have time to act.

Then take the 10 highest rated stocks. The results? Pretty solid.

In testing over a 15-year period through June 2019, the strategy increased a whopping 5,443%! During that time, the S&P 500 was up about 260%.

Now, let’s be real: all tests tend to look good. The ones that don’t you never hear about. But I tested this strategy and only this strategy. I didn’t sit around messing with the numbers until
something looked good. I simply fired up the computer and tested what I thought might work based on my 22 years of experience.

You don’t get a 5,000% return without risk. The strategy did suffer a 46% loss. That compares to 55% for the market. About 60% of the stocks were winners.

This highlights another point: You do not need to be right 95% of the time to get rich. In fact, if someone promises you that you can win on 95% of all trades, you should run the other way. Don’t think twice. Take all of the trades and be consistent. No one knows when the big winners will come. Only risk an amount of money that won’t keep you awake at night when that 46% loss (or worse) does come.

So, there you have it. If you follow the ETF strategy in Chapter 7, then you’re well on your way to unbounded wealth. If you want to pick individual stocks in the U.S. and demand that they have earnings quality as outlined in chapter 8, then you can juice your returns even more.

If you really want to fly high and take your wealth to another realm, then look beyond your borders and capitalize on stocks emerging from crisis. Sir John Templeton made billions of dollars investing all over the world. There’s no reason you can’t add a few extra shekels to your retirement account following a similar approach to investing.