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Beginner’s Guide
How to Become a Successful Investor

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Laurea University of Applied Sciences

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Abstract

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The main objective of this thesis is to teach a total beginner how to become an investor and to start investing successfully.

There are so many different ways to invest and various investment categories, so I had to focus on one. In this thesis I chose to focus on stock investing because virtually anyone can start investing in stocks and it is one of the fastest ways to make money and also to lose money.

When I began writing the thesis the goal was to write an easy to understand, easy to read and interesting guide about investing instead of a dry academic paper. What is the purpose of writing anything if nobody wants to read it?

The information in the thesis has been gathered by analysing the behaviour of successful investors and their investment strategies. The data has been collected from various sources, including newspapers, academic journals, websites, books and magazines. In addition,my personal empirical experiences in the stock market plays a big role in many conclusions.

When I started the research process the main questions were, "why some stock investors succeed and why some don't? Anyone can get lucky once in a while, but what separates guys like Warren Buffett and Benjamin Graham from others?"

The most shocking finding might be that to become a successful investor, it doesn't require extraordinary IQ, superior mathematical skills, nor expensive education. That is why a big part of the thesis is about how think, talk and live everyday life like an investor. Anyone can develop the required skills needed to become a successful investor. To find out how you can make millions in the stock market you will have to read the whole thesis.

Whatever you end up doing in life, after reading this thesis you will have knowledge how to make more money and live a happier life. It will be up to you to put that knowledge into use.

Keywords: investing, stock investing, stock market

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Tiivistelmä

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Tämän opinnäytteen päätarkoitus on opettaa täysin aloittelijaa kuinka sijoittaa onnistuneesti.

On monia erilaisia sijoituskategorioita, joten minun oli keskityttävä yhteen. Tässä opinnäytteessä keskityn osakesijoittamiseen, koska melkein kuka vain voi aloittaa käymään kauppaa osakkeilla. Osakkeet ovat yksi nopeimpia tapoja tehdä rahaa ja hävitä rahaa.

Kun aloitin opinnäytteen kirjoittamisen, tavoitteeni oli saada aikaan helposti ymmärrettävä, helppolukuinen ja mielenkiintoinen opas kuivan akateemisen tutkielman sijasta. Miksi kirjoittaa mitään jos kukaan ei halua sitä lukea?

Opinnäytteen tieto on saatu analysoimalla menestyvien sijoittajien käyttäytymistä ja heidän sijoitusstrategioitaan. Data on kerätty monista eri lähteistä kuten uutisista, akateemisista kirjoitelmista, nettisivuilta, kirjoista ja lehdistä. Myös minun oma henkilökohtainen kokemukseni osakemarkkinoista on isossa roolissa monissa päätelmissä.

Kun aloitin tutkimusprosessin, pääkysymykseni oli, “Miksi jotkut sijoittajat menestyvät ja jotkut eivät?” Kuka tahansa voi olla silloin tällöin onnekas, mutta mikä erottaa henkilöt kuten Warren Buffettin ja Benjamin Grahamin muista?

Kaikkein yllätyksellisin löytö oli, että menestyäksesi sijoittajana et tarvitse ylivertaista älyä, matemaattisia lahjakkuutta tai kallista koulutusta. Siksi iso osa tätä opinnäytettä on kuinka ajatella, puhua ja elää jokapäiväistä elämää kuin sijoittaja. Kuka tahansa voi kehittää tarvittavia taitoja ja kenestä tahansa voi tulla menestyvä sijoittaja. Selvittääksesi, kuinka juuri sinä voit tehdä miljoonia osakeilla, on sinun luettava koko opinnäyte löytääksesi vastaukset.

Mitä tahansa tulet lopulta tekemään elämässäsi, sen jälkeen kun olet lukenut tämän opinnäytteen, niin sinulla on tietoa kuinka ansaita enemmän rahaa ja elää onnellisempaa elämää. Mutta muista, että lopulta se on sinusta itsestäsi kiinni laitatko tietosi käytäntöön.

Keywords: sijoittaminen, osakesijoittaminen, osakemarkkinat

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1.0 SECTION I - INTRODUCTION OF THE THESIS

If you invested 10 000 dollars in Dell Computer in July 1, 1989 and hold in the stock until 1999, you would have made 8.9 million (Peter Lynch, 2000).

The purpose of this thesis is to teach you how to make money on stock market by buying and selling shares. Even this thesis is about stock investing, I will also talk about owning a business and entrepreneurship because you have to understand those two things in order to invest successfully in stock market. After all, it is a business your are investing in by buying the shares of a company.

I will tackle on the fears that are holding back people from investing in stock market. I am also going to answer questions a person usually has before investing into anything. Very important part of the thesis is the second chapter, where I will explain how people make money and how money controls us. Not only you will learn about stock investing, you'll also learn things about money that you may not have realised before. When writing this thesis, my goal was that you'd have more money and a happier life, no matter what you end up doing for living.

I am going to use a lot of examples from my own experiences, observations from real life and knowledge I have gained from books throughout the years and transferred them into my own thoughts.

Usually theses are written very academically and somewhat in a dry manner. I tried to make this thesis into an easy to understand guide that you can actually use as a starting point of your investing career. I tried to make the text conversational, easy to read and above all easy to understand. What's the purpose of writing anything, if nobody understands the text or does not want to read it?

1.1 Purpose of the thesis

If you want to have more money and a happier life, this thesis is worth reading. When I started writing, the goal was that I would give you something new and something that cannot be found in every other book.

This thesis summarises what I have learned about money and investing. My goal was to package the most important things I have learned into a small guide.

What motivated me to write about this topic was the experiences I have had. On one hand I have experienced what it is like not to have money for milk and only eat oat meal with tap water. On the other hand, when I played pro hockey in the Netherlands, I experienced what it is like to live in the one of the best neighbourhoods in the country and to walk into a grocery store and buy whatever I wanted. Having experienced the world of the poor and the world of the rich, it drives me to try harder to become really wealthy.

The purpose of this thesis is to help you and others to have a happier, healthier and a more wealthy life. When individuals feel well, the society feels well. That way I am not only helping you, I am also helping myself.

“Money doesn’t make you happy, but the lack of it can make you miserable and I would rather be awfully comfortable while being miserable.” (general quote)

1.2 What this thesis is not about

This thesis is not about real estate or commodity investing. When I talk about stock market I have excluded warrants, options, shorting, etc. Also, when to sell the shares part I have left out because it is the art of its own. Depth analysis regarding when to sell the shares you can be found in the book I am going to publish 2016-2017. This thesis is only about how to buy shares of companies successfully. I am going to tell you how to pick wining stocks that make you money.

1.3 Research problem - Questions I searched answers to

The questions I tried to find answers to were:

1. How to make money in the stock market?
2. What separates the most successful investors from others, how are they different and how can I do what they have done?
3. Why so many investors lose money in the stock market and very few make a lot of money?
4. Why the poor tend to stay poor and the rich become even richer?
5. How can I have more money, no matter what I end up doing for living?

These questions have been in my mind for years. The question “How can I become rich?” started my personal journey to a world of money years ago and this thesis concludes many findings I have done.

1.4 Research approach

As mentioned earlier I have used a lot of personal experiences as research method. I have been lucky to live in different countries with different families and seen how people in all social classes do things. For example, there is a clear difference in how people behave and talk depending on what their social class is.

I also did a lot of theoretical research for the thesis by reading books, magazines, newspapers and biographies. This thesis is a conclusion of what I found out.

1.5 Framework of thesis

This thesis is about investing for beginners. That is why I will also talk about personal money management, budgeting, mind set, entrepreneurship and business ownership, not just how to evaluate stocks. All of those things are related to each other and if your knowledge in one of the the areas is too lacking, you can never become a successful investor.

I have divided the thesis into five sections.
Section 1.0, which you just read is the introduction of the thesis.
Section 2.0 gives you the foundation of understanding money.
Section 3.0 is about investing overall.
Section 4.0 gives you fundamental understanding of the stock market
Section 5.0 consists of clear steps on how to analyse companies.

Section 2 and 3 are the body of the thesis because without understanding what I am discussing in those sections, you cannot succeed in the stock market. Section 4 is important because you have to know the very basics of “language” of stock market. Section 5 is the most interesting in terms of money because the knowledge in that section will directly affect your wealth.

2.0 SECTION II - FOUNDATION TO UNDERSTANDING MONEY

In this section I will enlighten you about how people make money and how money controls us. If you have not heard of these things I am about to discuss, these few pages will be life changing. Even if your dream is to be a petting zoo keeper and you could not care less about the stock market, this thesis will help you in life because money matters, whether you accept that or not.

As mentioned before, in this thesis I will focus in the stock market and but also discuss a lot about entrepreneurship and building a business because those are so closely related to successful stock investing. In order to become a successful investor, you must understand business ownership and to develop your entrepreneurial spirit.

Before going into the basics of stock market, stock trading and all the way on to how to analyse companies, we must start from the CEO of your wealth and life, YOU. Because before you can start investing your hard earned money, you need to understand yourself and the world of money around you. Your first and biggest investment is yourself and that is why I will walk you through simple real life examples how to think, talk and live like a true sophisticated investor and business owner.

I will also tackle on the fears that may be holding you back from investing and to answer to the questions you most likely have regarding the stock market.

If you put into action what you are about to learn, your life will be fuller, richer and a lot more fun!

2.1 Are you a slave of the money?

Things I am going to talk about might be new to you and if they are, there are two options on how you will react. 1) You will say “this is too complicated, I will keep doing what I have been doing” or, 2) you will start asking questions and searching for answers.

Personally it boggles my mind how people can say “I am not interested in money”, yet every morning they wake up and physically go to a place which they usually hate, just to get money. That routine is called having a job.

Our lives revolve around money but most people refuse to talk about it. They don’t understand how money work or the basics of economics (that “fancy” word alone scares them away) and say that “money is the root of all evil”. Those same people complain about taxes, co-workers, the world and say that if they had money they would do this and that. Usually those people fill lottery tickets on weekends and hope for a miracle to happen.

The fact is that not everyone is made to be rich and that is totally fine. Many people are very happy having a salary cap and working for someone else. It is good that they have someone taking care of them and telling them what to do. But still those workers would like to have more money. Everyone would like to have more money, if not for themselves, for a charity or a good cause.

Good news for everyone is, that it doesn’t require much of an effort to learn about personal finance, budgeting and some basics about investing. And it is totally free to think like an investor. I believe that if workers thought more like business owners and investors, they would have more money, they would be happier and the world would be a better place.

Here is an example which you can try yourself the next time while grocery shopping. When you go to a store next time, look at what people buy. You will notice that lower and middle class people buy ready cut cheese, they buy expensive (ready packaged foods), microwave meals and frozen pizzas. An investor realises that ready cut cheese is more expensive and it doesn’t taste as good as cheese cut from a block. An investor realises that it does not make any sense to pay 20 euros for (ready packaged) processed foods when you can buy fine meats for 15 euros per kilo. An investor thinks of alternatives and what his opportunity cost is. In a store you will notice why some people will never be rich. Their thinking is just illogical because for the same amount of money they could buy more and better. Why this happens? I think it is because of laziness and ignorance.

If you want to become rich, you will have to learn to think, talk and live like a business owner and an investor. Most likely you will have to start small as self-employed and grow the business or to make your first stock purchase with less than 100 euros. You have to start from somewhere. If nothing else, you can start by making the right choices in everyday life, for example buying organic meat at a discount and stay far away from the ready cut cheese slices. If you do not take action, nothing will ever happen.

2.2 Why money matters?

How much money you have determines where you live, what you eat, your health care, education, hobbies and many other things. You can either live in denial that money does not matter or accept the fact that money is one of the most important things in your life.

Most of people hear all their lives "go to school, get good grades so you can go to college and get a safe secure job", But if you look around, that is not enough. You have to do something differently than the baby boomer generation, unless you want to be a slave of the money for the rest of your life.

We cannot deny the fact that everything in life is somehow linked to money.

2.3 What is money?

What money really is? It is just a currency which has certain amount of purchasing power. If you read about the history of money, it is very interesting how pieces of metal, sea shells, gold coins, etc. have been used as money to trade goods and services.

Modern money itself is worthless, it is just paper with colours and pictures depicting how much purchasing power it has, but what you can trade your coloured paper into, that is what really matters.

2.4 Why money was invented?

Money was invented to speed up trade. If there was not money as we know it, a fisherman would have to go to a marketplace to trade his fish for wood, so he could build a house or an iron worker would have to find someone wanting to trade iron into cheese for example. This type "old school" trade takes lot of time and slows down the productivity. Wouldn't you rather do something useful than spend hours trying to find someone wanting to trade with you?

I see money as a good thing because it really makes the world a lot more efficient. People can focus more on their jobs instead of figuring out how to trade their products or services.

Stock market is a place where excess money can be directed most efficiently to increase productivity (increased productivity means making more with less, not making more).

2.5 Why you should learn to manage your money

Many parents tell their kids to go to school and to get good grades so they would have a safe and secure job in order to afford a car and mortgage, then to get married, make babies, get a raise at the job so they would have money for a bigger house, vacations and to donate to a charity and then live happily ever after in the retirement. If that was so simple why there is over 60% divorce rate in the western world, alcoholism, people living in poverty, increasing social inequality and unhappiness in the middle of excess goods. Clearly what what we are told to do is not working in the modern world, so we must change something in our action.

Good money management is not the solution to all the problems, but that with the way of thinking I'm going to talk about in this first part of the thesis, will give you a lot happier life than what most of the parents teach.

It is understandable that parents want their kids to have a good education so they wouldn't become homeless or unemployed. They have good intentions and I highly agree that a person should always keep educating himself. Problem with thinking that a good education leads to a good job is not valid anymore. If something is certain, change is. If a person or a company can't change according to the surrounding environment, then one gets left behind. That is what happened to the dinosaurs.

Also, I'm not going to say that everyone should become business owners and investors. It is just not for everyone. But understanding business, investing and especially money, can make anyone's life much more enjoyable, no matter what the person ends up doing for a living. As Robert Kiyosaki (2000) says, everyone should understand the basics of money, how to do personal budgeting, as well as to recognise the difference between good debt and bad debt. You should know that your car, furniture or house are not assets. Yes, your house might be an investment, but that investment is a liability, not an asset.

I have seen that it doesn't matter how much money you make, if you can't manage it. I have seen even millionaires struggle and lose their homes because they couldn't manage their money. And if you don't have millions, then you have even more reasons to learn to manage your money.

2.6 What is financial freedom, cash flow and capital gain?

When cash flow from your investments cover all of your current living expenses, that is called financial freedom. It means that you don't have to work anymore if you don't want to, and money still keeps coming in.

Notice that I said cash flow, not capital gain. And before going further, let me explain what cash flow and capital gain are. <u>Cash flow</u> is like water flowing from a pipe as annual dividends and <u>capital gain</u> is like a big bucket of water that you dump, for example when you sell a bunch of stocks for profit. Other real life examples: Cash flow comes from rental units and capital gain when you sell an apartment. (Richdadpoordad, 2012)

2.7 Seven categories of people

Having a lot of money means more time, freedom and security.

There are seven ways how people make money and how money controls us. These categories are based on Robert Kioysaki's "cashflow quadrant" found in most of his books, (Kioysaki, Robert, Prophecy, pages 229-247).

1. Homeless are drop outs of society for different reasons. They have very little freedom and the least security. Some may argue that they have lot of freedom, but in reality they can't even go to a restaurant without being kicked out. That is what I call a very little freedom. They have the least security because they don't have money for medicare, shelter, food, etc. Most of their time goes to survival.

2. Unemployed get money from the government welfare or similar programs. They have a lot of time but still very little freedom and very little security.

Unemployed people can even be highly educated possessing doctoral degrees, but when it comes to money, usually they have very limited skill set and very little knowledge regarding money. That is the biggest reason why many educated workers are unemployed for long periods of time.

There are hard economic times, sudden changes in politics, companies go bankrupt, etc. that can suddenly put a good worker out of a job. But here I discuss people who are in full mental and physical health to work but are unemployed for a long period of time, without real effort to change the situation by themselves. Instead they are for waiting someone to give them work in the field they have educated themselves in. There are clear differences between people who make things happen, or at least try to, while waiting, and those who just wait.

3. Worker makes money by working for a government or a company. Worker trades his assets, time and skill, for money. Money comes in when a worker physically does something he is hired for (writes, drives, digs, teaches, etc.).

Usually a worker has security in terms of shelter, food and medicare, but very little freedom because someone tells him what to do, when to take vacations and even when he can eat. The worker needs to show up at work in time and do the bare minimum not to get fired. Worker trades his freedom for security.

However, the security is still illusional: most workers who have steady “secure” jobs just don’t realise it. If a company doesn’t have good sales and its profits decline, usually expenses are reduced by salary and personnel cuts. Even if there is no need for cuts, companies still always try to minimise the expenses. Some jobs just have more security than others, but nowadays there is no such a thing as a secure job or job security like it used to be 30 years ago.

4. Self-employed is usually a doctor, a lawyer, a construction worker or whoever has corporated himself. Just like the worker, usually a self-employed person has very little freedom and even less security because he has to do the actual work as an employee (worker) and on top of that run a small company (employer).

The only direct difference between a self-employed and a worker is that a self-employed gets some tax benefits a worker doesn’t, there is no salary cap and more freedom with schedule. But those benefits come a with a catch. The self-employed has to deal with paper work, take care of sales and to pay all kind of fees that normally a company or government would take care of.

There is also less security because self-employed has play by more complex rules. For example if you don’t pay your sales tax and mandatory insurance you are in trouble. These are things a worker doesn’t need to worry about.

Why would anyone want to be self-employed if the direct benefits are so small, more work and a chance of losing everything if you make big mistakes? There is no salary cap, someone is not telling you when you can eat and especially a possibility to grow the business bigger are the main factors. Some people may not have any other option than becoming self-employed if they want to make their passion into a livelihood.

5. A small business owner by official definition has workers from one up to 500 depending on country. However a more accurate definition of a small business is that the business needs the owner to function. Small businesses are often family run businesses, for example a hair salon or a restaurant, and it requires the owner physically to be there most of the time.

Small business are usually incorporated which gives them more freedom but also more liability in terms of how easily rules can be broken (e.g. tax law).

6. Business owner is a person who owns a company which can operate without him, like Richard Branson and Donald Trump. The owner's presence or input is not needed for the company to function and the business is working for the owner and/or shareholders. The company is overall a well functioning ecosystem by itself.

Now some might argue that the CEO or owner makes the difference in a company, and company can't succeed without a great CEO, which is somewhat true. Usually a great company has a great leader, especially in the growth period, but Apple, Microsoft and Nokia are still functioning well without Jobs, Gates and Ollila being in charge. Ford and Coca-Cola are a couple of the biggest companies in the world and they were started almost hundred years ago.

When a person reaches the business owner status he doesn't need to work, if he doesn't want to. The successful business keeps generating money to him. That is called being financially free.

To become a real business owner, you have to think like an investor. That is why the line between the business owner and the investor is not so clear.

7. Investor is a person who doesn't work for money, he puts money to work for him. The investor can be anyone at any age, anywhere in the world and no matter what his current financial situation is. However there are different levels of investors and to become a professional investor takes lot of practice. Later I will talk more about how to develop your skills so you can make living by investing.

There are different skill levels among investors just like in sports athletes have. If someone says "I'm an investor", he can still be a total beginner or think investing as a hobby. Just like when someone says "I'm an ice hockey goalie" doesn't mean he plays in the NHL.

The biggest difference between business owners and investors compared to everyone else is the way of thinking. Usually homeless, unemployed, workers, self-employed and even some small business owners think that investing is too risky. They think that the investor is someone who has millions and lives in a far far away land. Because the way of thinking, "a normal person" can never be rich financially.

The investor makes wealth accumulate, he studies different investment types such as stocks, bonds, precious metals, oil and real estate. Knowledge is investor's most valuable asset and he understands the opportunity cost (explained later).

Workers want things to be guaranteed for them, they avoid uncertainty and workers are happy doing everyday what they are told to do. Business owners and investors trade illusional security of a worker to the possibility having real freedom from money, financial freedom.

The mindset is the biggest difference between investors and business owners compared to the rest of the population. However, anyone can become an investor if the person really wants to.

One of the best ways to make a lot of money is to become a business owner and an investor but that is also really hard. It takes a lot of passion, faith and determination to build a multi million dollar business

It takes years and it takes a lot of hard work to become a real investor, just like it takes a lot of effort to become a professional athlete. But if you become a successful investor you can be really rich. It is not guaranteed but there is a possibility. You can keep your day job, go to school and do whatever you have been doing, but start learning how to think like an investor. Some day you might find yourself sitting on a pile of cash, which keeps getting bigger.

2.8 Your behaviour determines your wealth

Workers, whether working for a company, a government or for themselves as self-employed, tend to say things I have listed below. I call it "a workers way of thinking and living." If you think this way, most likely you can never be rich financially and spiritually.

A worker's way of thinking and living:
"It takes money to make money and I don't have money."
"Investing is too risky."
"I'm waiting the right timing to get started."
"I don't have a good business idea."
"I hate selling, I'm not a salesman, I'm a doctor."
"I'm not interested in money."
"I wish I had more time to start a business, but I'm so busy with…"
"I'm happy with the job I have, I make the difference in the world, I'm a....(what ever the person does for living)."
"I'm too old."
"I'm too young."
"I'm just a student."

"I'm just a second year student, I still have time to be in school and I don't want to worry about real life things."
"My failures are my parents fault, my spouse's fault, kids fault…"
"I'm going through hard time right now."
"I'll start that soon."
"I'm too tired."
"I can't afford it."
"I can't do it."
"I don't want to fail."
"I don't have time."
"It is too difficult, hard, scary or demanding."
"Money is the root of the evil"
"Money doesn't matter."
"I'm not interested in money."

Do you notice that there is a lot of self-centrism, hopelessness, denial, anger, blame, excuses, etc., in those sentences. Everyone has hard times sometimes. Nobody has enough time, not even retirees or the unemployed. There is always someone else to blame for our failures, a job too demanding to think of doing anything else, relationship problems, just problems and of course money doesn't matter! As growing up I never wanted to become an adult because I thought this was the way of living and way of thinking. However, I knew there had to be some kind of another way because there were people who were rich, people who did for living what they wanted and people who were happy. I believe I have found the answer and I'm sharing it with you in this thesis.

I see the business owner and investor way of thinking as caring, optimistic, honest, brutally honest, exciting and responsible. I coined a term for this type of thinking and seeing life, "Investorialism". A real investor says "I'm in charge of myself and my life. I can't succeed alone, but I don't blame anyone else for my failures."

Business owners and investors say things like:
"How can I have that?"
"What do I need to do in order to get it?"
"What did I learn from that failure?"
"Has anyone ever done this before, could I learn from him?"
"Do you know anyone who could help me with this?"
"I feel tired. I should get some rest, eat better and start exercising to get my energy back."
"Now is good time to start or prepare for it."
"I have been reading this…"
"Have you heard of this?"
"I'm already in college, I better start making things happen."
"It will be fun to see if I can do it, even it sounds like lot of work."
"If I fail, at least I know how not to do it next time."

“What is the worst thing that can happen if I fail.”
“People are interesting, everyone has a story.”
“What do I need to chance?”
“Can you teach me that?”
“I don’t know what that is, please, tell me more about it.”
“How can I solve this problem.”

Do you notice the positive and optimistic outlook in those sentences? Do you notice curiosity and questions instead statements. Some years ago I heard that “it doesn’t matter what you know, it is what kind of questions you ask.”

I see “investorialism” as a way of living and seeing life in a positive light. Good businesses solve problems and good business owners want to make the world a better place. Many people say that capitalism is the root of evil, but I see it as a tool to make good things happen. After all, it doesn’t matter if we talk about an individual person, charity, a company or a government, they all need money. If any of those I mentioned keep spending more money than what comes in, sooner or later a bankruptcy will happen. That is why the ability to make and manage money is so important. People in Greece certainly know that.

It seems like good investors know that investing and life in over all are team sports. That’s why they surrounds themselves with good positive people. People you surround yourself with are like your mirrors, you will become more or less like them, so pick your friends, advisors and business partners carefully.

2.9 Rich don’t work for money

I think the biggest reason why so many poor and middle class people can never become truly rich is because they do things for money. They go to school and get a job because of money. Rich study and work to gain knowledge and experience, so they could use what they learned to build a business and/or invest more wisely.

Only way to become truly rich is to do something in a field you love, something you are passionate about. If you don’t love your work most of the time, you are holding back your true potential.

Having lots of money, hot girls, big houses and fancy cars is not the purpose of life of the investor. Money and things money bring are only a byproduct of the actions an investor would take anyway. For example, for years I played hockey like I did it as a livelihood, even if I didn’t get paid. Everyday was a training day, everything I did had a purpose either to make me recover from the training, prepare me for training or I do actual training. I knew that someday I could make a lot of money from hockey but I didn’t do it for the money and success. It was not guaranteed even if I worked my butt off. I just loved training and playing in front of people. Nothing ever felt like that. The enjoyment it brought was worth all the time and effort. Eventually I actually got paid to play in front of thousands of people. If I didn’t have passion for the sport, I’d never made it through all the hard times.

I never made big money in hockey, but all the experiences made me a great coach and taught me many things about life and myself. As said before, you must have passion for what you do, and having lots of money can't be the main motivator. Whenever you try to accomplish anything great there will be obstacles. Because of all the obstacles it is against all the common sense to keep trying when you have fallen and failed many times. Passion is only thing that makes you try again.

For a truly successful investor the game of investing feels like hockey felt to me. Investing excites them and energises them! Opening a financial statement and reading annual reports feels like reading a treasure map (those are literally treasure maps!).

Obviously you need money to get food and shelter, but that is not the biggest reason for doing investing or building a businesses. It is the feeling of doing it. I think the only way you can understand what I'm talking about is, if you have done something you are truly passionate about whether it is art, sports or calculating rocks on the beach.

Business owners and investors are problem solvers and they want to make the world a better place. Business owners build businesses to solve problems or needs, and high roller investors invest in businesses to make them better at problem solving. Just like sports, if you start doing it only for the money, soon you'll go down and hard. Boxers are good examples because it is so clearly shown that when you don't have passion for the sport anymore, in a couple knockouts their career is over. The same can happen to business owners and investors. When the passion is gone, the money is gone.

The fact is that everyone won't be rich but everyone can be rich. Investing and owning a business is not for everyone, but everyone has the opportunity. Having lots of money is not for everyone but everyone can have lots of money.

Rich become richer and poor stay poor because way of thinking. When you find a problem you truly care about and want to solve it, most likely money will follow. For example I have started coaching and agent services because I wished that someone guided me when growing up. I had some great coaches who I'm thankful for the rest of my life and some bad coaches who showed how you have to look out for yourself. I started coaching for free and now I have been getting offers around the world to coach for a decent amount of money. But many other business attempts of mine such as a wedding website have failed when I have done them only for money. The biggest reason is that when the first obstacles occurred, I gave up. I just didn't have the interest and passion.

No matter where you live and whatever you do, understanding money is one of the most important things you can do. Why? If you don't understand money, you'll be a slave of the money rest of your life.

2.10 The different set of rules for the rich, the poor and the middle class

You can think of money as a game. Every game requires certain skills and every game has a set of rules, so does the game of money. NHL players have a lot of hockey skills and they understand all the rules of the game called ice hockey. Warren Buffett has a lot of business skills and he understands the rules of money. That's why he is so rich.

For example business owners and investors have different tax rules than workers. Workers have simple rules and those rules are hard to break even accidentally. Business owners have more complex rules and the rules are easy to break even accidentally. If you break the rules of money, you'll get fined or go to jail. Business owner ha more flexibility and he can use the rules to make more money than the worker could, but he also has more responsibility. Worker trades freedom for security and a business owner trades one kind of security for freedom.

Unemployed people have their own set of rules. Most likely an unemployed pays a lot of attention to that he doesn't break the rules of government welfare program, so he can continue getting "free" money. Being unemployed doesn't require much skill nor knowledge about rules.

Generally, workers have more skill and knowledge than the unemployed, that's why they have more money than the unemployed. Most likely a worker is skilled in his occupation, but doesn't have the knowledge and skill when it comes to money. That's the reason why very well paid workers can never be rich. They just focus on the skills and knowledge needed in their occupation.

The skill set and knowledge of business owners and investors are totally different than other people's. Business owner may not know how to create pots and pans, but he knows how to run a business and make money with those pots and pans someone else makes. A good investor recognises a successful pot and pan business that is undervalued and buys its shares. Business owners and investors know how to play the game of money. Money works for them.

All this may sound harsh and that everyone should be business owners and investors. I don't think so, because everyone is not mentally to cut to do those things. They'd be stressed and miserable. I just hope everyone would pay more attention to their financial education. It would make the world run smoother and people would take better care of themselves, be more productive and complain less how they are not given things.

I want to point out that what feels like freedom to a business owner may feel like a huge burden to a worker. For example I could never imagine my Mom being a business owner or an investor. She is much happier being a worker and not having to worry about all the things business owner has to consider. However, I can't imagine myself being a worker my entire life. A thought about working for some company all my life feels like being trapped in a cage. If a person knows his strengths and passions, and gets to use those in the work, most likely the the job doesn't feel a job anymore. Work can make you happy.

How much money is enough? It's subjective, but it is certain that good money management makes the person happier.

2.11 Why poor and middle class struggles

Kioysaki (2009) says that the following are the reasons why poor stay poor and middle class struggles:

- taxes
- inflation
- bad debt
- retirement

I will tell you more in detail about each of these below.

2.11.1 Taxes

When a government is looking for extra income whose efforts are taxed first? Workers and self-employed. If a government increases companies' taxes too much, it would mean less companies (they'd move to another country), less jobs and less income to be taxed. Even if a government would increase companies taxes, eventually they would have to lower them because why would a company want to be in highly taxed country. But workers and self-employed are the ones who can complain, but they don't have any other option than to keep working, in order to get food and shelter.

Workers suffer from the taxing the most because before they get a pay check, taxes and all the deductions are taken out. Self-employed pays for his car, mortgage payments (home office), computer, some food and other things first, then the taxes are taken from what is left. Companies do this in a bigger scale.

If you have paid attention whose taxes are raised: people in upper income bracket. Not really truly rich, but well educated hard working people, self-employed and small business. For example, if Finland wants to survive the changes in the world's economy, we will have to change the way things are taxed. The hard work of self-employed and businesses who create jobs can't be taxed like it is today. They should be rewarded and allowed to invest the money back to business, instead of giving it to the government welfare programs.

What should be taxed then? My personal opinion is that non-renewable energy should be taxed more heavily than green energy, consumer goods like cars, toys, alcohol, tobacco, candy, sugary drinks, energy drinks and things that people can live without. I also think that chemicals and things that destroy the health of people and the environment should be taxed more heavily. Not hard work of self-employed or businesses who take risks to create jobs for themselves and for the society.

I also think that the education system in Finland should behave as a more open market, instead of the government monopoly. Only way a small country can survive is good education. And only way to have a strong education system is when a teacher all the way from kindergarten has a chance to make good money. I believe there should be some kind of results based salary or bonus system because it is proven that a person works harder when the hard work is rewarded.

2.11.2 Inflation

Inflation means that purchasing power of money weakens. For example, if a year ago a cereal box cost 2 euros, with annual inflation of 10%, it costs 2,20 euros now and 2.42 euros next year. Inflation varies and 2-4% annual inflation is normal. If your salary doesn't rise with inflation rate, then you are becoming poorer every year.

Why businesses are in different position than workers? A business can raise its prices and keep up with the inflation. Companies' extra cost in labor, material or in anything is always passed down to the end user in price. Of course if people can't buy the goods for a given price, then it is a problem, but do you see how a business has better protection against inflation than workers?

2.12.3 Bad Debt

Bad debt is debt that doesn't produce money. Good debt makes you money. It is so simple!

Good debt: You own a rental apartment and through monthly rent you get 1000 euros. For the rental apartment you have taken a 100 000 loan and your loan payment is 800 a month. You also spend 100 euros per month for maintenance expenses, totalling 900 euros / month expenses. That leaves you with 100 euros monthly income before taxes and eventually someone else pays your rental apartment loan payment. In 10 years you will have the apartment fully paid, making you money every month. That is good debt!

Bad debt: When you buy a house for yourself, that is bad debt. Even if the house would go up in value, you are still losing money every month. Other bad debts are car and consumer loans. In countries where university is not free like in Finland, the student loan is an investment to the future, but in black and white thinking, it is still a bad debt because that money is not making you money while you sleep.

The cost of education is also ridiculous in the U.S. and in my opinion a BA business degree from Harvard is not worth 300 000 dollars. How many rental apartments could you buy with 300 000 dollars? Enough to retire? Or in Finland when people buy cars, clothing, alcohol and expensive houses, what else could you do with 20 000 - 100 000? Imagine a high school student starting to save money to buy a rental apartment. Most of youngster in Finland working part time a couple years could buy an apartment and rent it out.

2.13.4 Retirement

A normal worker goes to work for about 30 years and saves money for retirement. After you have paid taxes you put, let's say, 200 euros to your retirement plan. Now, that is your 200 euros you got after paying taxes, right? When you some day start getting retirement income, which you have saved, it is taxed again! What if a person happens to die before he has "used" all the money he saved? Government gets to keep the money the person saved to the pension plan. Also, what if the government can't make the payments?

I'm concerned about traditional retirement planning because most of the governments in the world have lot of debt and countries are running on deficit, meaning they spend more money than they get from taxes. Population is aging and living longer and the younger generations have a big problem with obesity and mental health. Who is going to pay all the baby boomers' pensions if the younger generation is sick? I wonder if the government has the money for pensions when I retire? Do pensions even exist when I'm 65? Also, did you know that many pension plans are tied to the stock market in the USA and in Finland? Pension fund companies have most of their money invested in different investment categories. What happens if a stock market crashes or if there is something like the great depressions in 1929? It took 25 years for the stock market to fully recover from that.

Of course what governments can do in case they don't have the money to make pension payments, is to print money. Solved! But what happens when they keep printing more and more money? It creates inflation. If you didn't sleep in history classes, you'll remember Germany having a hyperinflations because all the government did was money printing between wars.

Personally when I retire I want to have a company that keeps producing money and have it passed on to my kids. I don't want to work for 30 years and have nothing else to show for it than a watch and a pension plan, which is half of my working time salary and doesn't keep up with inflation!

On the other hand I think the pension plans are needed and a good thing. Most of the people don't have the self discipline and knowledge needed to take care of their own retirement money.

2.14 Education system

I remember how excited I was about going to University in Canada to learn business. I thought "Finally someone will teach me how to make millions!" Another thing I remember later in the spring is sitting in finance class and teacher saying "If you do well on this and this course there will be many job openings for you when you graduate." Many of the teachers were saying the same thing. All my life I have heard how school is child's job and how I need to get good grades in order to get a good job.

The fact is that our education system teaches how to become a good worker or a soldier. That's what kings needed a long time ago, that is what people in power need today. Current school system was created so factory workers' kids would have a place to be at when parents went to work. School system was a way of controlling big masses. How much the system has changed? Not that much.

Have you ever asked why business or personal money management is not taught at schools? We spend hours of learning how to punctuate our stories or what the word "cat" is in the Swedish language, but there are no government forced courses regarding how to manage your money. We spend 15 years in school learning how to get a job in order to get money, but nobody tells us what to do with the money, besides spend it on cars, houses, clothing, etc.

While growing up I was so frustrated about school for so many years because I didn't see a point doing many things, such as memorising latin names of flowers. When I asked "how is this information going to help me to make money?" nobody could tell. Adults just said that school is a kid's job. What?! I think that it is a great example of people ignoring real questions and trying to protect their little "everything is fine and government knows best because this is the way things have always been done" fairyland thinking. I'm glad to see that in recent years the way of seeing entrepreneurship has finally starting to change in Finland and people aren't so afraid of asking questions.

Don't get me wrong, education is very important and I'm grateful for the modern school system, especially in Finland where it is "free". It gives everyone an equal chance to succeed. I just happen to see the content of education system outdated in many ways, and too many interest groups having their say, so it is very hard to make any real progress or improvements. I think the current education system will stay in place, but private schools and private learning will also arrive to Finland at some point. The reason why it has not happened yet in Finland is because right now there are actual laws keeping competition out and giving the government the right to run education virtually as a monopoly.

If you want to achieve something, find a person who has already done it. Figure out how he did it and do it better. That is the easiest and fastest way to succeed. Don't expect your teachers to know anything better than you do, if they haven't done it. If they say you should wait until graduation before you start a business, then there is even more reason not to listen that person.

Learning is a life long process. To have a happier life you should keep improving your personal money management and way of thinking. Always keep educating yourself. Knowledge is power.

3.0 SECTION III - FOUNDATION TO INVESTING

In this part you will learn what kind of action you should take. What separates real business owners and investors from wannabes, is that they take action. Action is only thing which brings results.

As I have mentioned before, personal money management is the foundation of investing. In this part I will talk a lot about things that at first may not seem to be connected with stock investing, but this is extremely important if you want to become successful investor. I'm sure you will see the connection after reading the whole thesis.

3.1 Investing is too Risky!

It is risky to cross the street or drive a car and to fly a plane if you don't know what you are doing. There is a reason why parents hold their children's hands when crossing a street. There is a reason why you take driving lessons before driving alone or why pilots spend hours in a flight simulator before going to fly a real plane. One and only reason is: otherwise it is too risky!

Anything in life is too risky if you don't know what you are doing. That is why many things you'll practice before actually doing it. If it takes thousands of hours to get a license to fly a plane, why shouldn't it take a lot of effort to learn investing in real estate, stock or commodity markets? Remember, if investing was easy everyone would be a millionaire.

In a stock market transaction there are two parties,the seller and the buyer. When you buy or sell a stock, ask yourself, do I know something the other party doesn't? Why is he selling for this price? Does he know something I don't? Knowledge is power.

If you want to make money in the stock market, I recommend that after reading this thesis, you'll do the following:

1. Start investing with small amounts of real money. The reason why I think a person should start investing with real money right away is because the feeling of losing money really motivates to study harder. And if a person can't handle that fear of losing money, he is not going to waste time on trying to become a stock investor.

2. Buy or borrow 10 books from the library about stock investing. Look up what guys like Warren Buffett and Peter Lynch recommend to read.

3. Open a free practice investing account, which many financial institutions offer. Reason why you should open a practice account is to practice with a lot of fake money and get the feeling of what it is like to do investing when you have thousands or hundreds of thousands on stake.

4. Start reading newspapers and financial news

As you noticed, I have talked a lot about feelings and way of thinking so far. A stock investor constantly battles with the fear of making mistakes, uncertainty and pressure. It can be really hard to separate emotions from logic and that is why even very highly educated investors lose money on stock market. They can't control their emotions.

3.2 One of the best advice you'll ever get in life!

Every single person should learn selling and investing for their own good and for the common good. Here I will explain why, and let's start by talking about selling.

3.2.1 Selling

When someone is advised that they should learn to sell, a very common response goes something like this, "I'm not a salesman, I hate them, I hate selling and I'll never lower myself to their level. Sales people are just after my money. I'm an honest person, selling is not for me." Those people don't realise that everyday they are selling, without knowing it.

Have you thought of what you are doing when you try to get a date with a girl? You are trying to sell yourself to her. The hotter and smarter the girl, the more options she has to choose from and harder you have to sell yourself. Have you ever had a religious person come to your door, trying to get you to come to their meetings? They are trying to sell their religion and liberation to you. How about trying to get your kids eating vegetables? You are trying to sell a healthier future to them. When you have a movie you'd want to watch, but your friend wants to watch another movie, the process of choosing which one to watch is a sales process.

I'm sure you are starting to see that whenever you want something to go to your way, you have to sell it first. It is your thought and you have to sell it to someone else, so the person would take action you want him to take.

The better you are at selling, more things you get the way you want, whether it is a date with a hot girl, a job, a promotion or what kind of pizza is for dinner. Every day, you are selling.

Clearly learning to sell well is going to help you personally, but how is it going to make the world a better place? Why everyone should learn to sell better? It is because being good at selling requires good communication skills, and if everyone learned to communicate better, there would be much less conflict. It's that simple.

A good salesperson must have the same skills as a good person has. For example a good person and a good salesman must have be following traits:

- honest
- loyal
- a good listener
- truly cares about other people
- is a problem solver
- friendly
- patient
- understanding
- wants the best for the other person
- doesn't take rejection personally
- has good manners

Selling is ultimately solving a problem and giving someone a solution. A good salesperson makes the other person happy by giving something that the other person didn't have before. A good salesperson also understands that if you screw someone over, he'll never buy anything from you again and warns all his friends about you. But if you are a good salesman, he'll recommend you to his friends.

Think about the good and the bad salespeople you have met. There are bad ones like water in the sea but truly good ones are rare. The reason why there are so many bad salespeople is because usually to get in and out of a sales job is so easy that many lazy and negative people tend to enter to that field. I think that's the biggest reason why people tend to think of selling as begging and one of the lowest level of jobs.

Personally, I see selling as the most important things a person or business does. If a business can't sell, it doesn't make money. That's why you have to pay a lot of attention how the company's sales are doing before investing into the company

In your personal life, if you learn to sell, your life will be smoother and richer many ways. If people learned to sell better, there would be fewer conflicts in the world.

3.2.2 Why everyone should learn basics of investing?

It seems to me that many people think of investing as something that is risky and hard to understand. Many think that investing means buying real estate, gambling with stocks or something that just rich people do to get “normal hard working” people’s money. I think that couldn’t farther from the truth and people who think like that can never be rich financially.

Investing can be a way of seeing life. For example opportunity cost is something investors understand really well and to me that is one of the most important terms understand. Opportunity cost measures the difference between the money you spend and the money you could make or how else you could have used it. A real life example about opportunity cost means that if you invest 10 euros in a movie ticket to see Iron Man, then you are giving up a pizza with coke or not being able to see a Hobbit movie. Your opportunity cost is what you are giving up to get something else and in this case it costs you the pizza.

Another example about opportunity cost is what the rich understand very well and poor people don’t seem to even think about. What are your two most valuable assets? It is time and knowledge! For example when you go to a store and then to an another store to get cheaper milk, you save 10 cents but how much time do you have to give up to do this. Could you have spent that time more wisely learning about investing for example? Did you think of the cost of gas you spent while driving to that other grocery store?

Every time you do anything, even sleeping, you are giving up something else. Right now I’m writing this thesis and giving up all the other things I could do. But I see that by investing my time into writing this thesis I will gain things in the future. When deciding between going to a vacation or investing that money into stocks, or buying a ready cut cheese or a bulk one, you are making decisions to give up something to get something else. When investing becomes a way of life, you will see things differently.

3.3 Sample “investorialism” way of thinking

<u>If I take a trip to Greece I might get the following:</u>

- Most likely I’ll come back more relaxed but it is not guaranteed.
- I might have a lot of fun and meet some nice people but I can’t be sure about it.
- For sure it will be an experience. I’ll get to see a new culture, eat some new foods, spend time on a beach, maybe scuba dive and do things I couldn’t do at home.
- The trip would be like putting money into my intellectual and experience bank.

<u>If I invest that money into stocks:</u>

- I could put that money into the stock market and wait for another six months. If I invest the money wisely I could get 20-50% in gains or even more. With that extra money I could have “a free trip”. I could also lose all of it.

- Do I really want to spend that time in Greece? I could stay at home, work all that week and actually make 1000 euros, instead of spending 1000 euros. <u>That makes it 2000 euros opportunity cost (difference between money you'll lose and money you could make)!</u>
- If I don't go, I don't get to experience all those things I'd like to. It could make my life happier in the long run by seeing what life is like somewhere else. I might appreciate my home and home country more after seeing life somewhere else.

Investing is clearly not all about how to get more money. Investing is about how to get more out of life and being happy with the decisions made. When thinking like an investor life is more logical and things make more sense.

Everyone has been dealt the cards we have and it is up to us how we'll play them. You'll get a lot more out of life and live it happier, if you can sell and invest.

3.4 Opportunity cost and going out of the comfort zone

Next time you hear someone complaining that he doesn't have money, something is too expensive, he doesn't have time, something is too difficult, it is not the right time or whatever, but still he'd want things in life, ask what is the real reason. Most likely after 5 minutes of talking he'll either get angry, change subject or just refuse to believe anything else than that the world is against him.

A big reason why people don't want to see the opportunity cost is because doing new things is out of their comfort zone. It feels uneasy. It is normal for a person to try to avoid pain and to gain pleasure. Avoiding pain is much easier than putting effort into achieving things. When you talk with someone about what should be changed so they'd get what they want, they might agree with you, but very few actually change anything in their behaviour.

For example many people say "I wish I had more money and when I win in the lottery I'll do this and that." Reality is that the person has all the opportunities to do all those things he wants to if he lives in the western world. Questions to ask him:

- How does he spend his time and money?
- Does he watch TV?
- Does he buy coffee at a gas station, at Starbucks or somewhere else in a cup?
- Does he make his own lunch?
- What kind of foods does he buy? What are the alternatives? (remember the cheese example from chapter 2.1?)
- Where does he buy clothes and furniture?
- What does he read?
- Does he exercise regularly?
- What kind of job does he have?
- Does he have another job or does he spend his spare time building a business?
- Does he have a job?
- What kind of view of life he has? Is he optimistic or negative?

If a person doesn't have time, money and fills lottery tickets on weekends, these are the most likely answers you'll find to those questions:

- He likes to watch TV shows, especially reality shows like Big Brother.
- Usually those people spend money regularly on alcohol, Starbucks, ready to go meals and often they go out to eat lunch or dinner.
- Their food selection tends to be absurd. They could buy a bag of flour and yeast to make tons of awesome fresh homemade bread for a few a euros, but they spend 4 euros on french bread at store.
- Same things goes with protein bars, why spend 2 euros on a bar when you can make a huge load of them at home for 5-10 euros.

NOTE: My opinion regarding evening news is that, if you just sit on couch and listen to the negative things happening in the world it is a waste of 30 minutes. If you watch the news you should do some exercising or stretching while watching. You should know what is happening in the world in order to be able to invest more wisely and to be a more well rounded person, but how you acquire that info should be more efficiece than watching the evening news.

Poor people make poor choices. Below I have some more examples what I have seen myself and what I found in books, at seminars and by talking with other people.

Regular exercise and healthy diet is something many rich have in common. Smoking and drinking are not part of their habits. Yes, there are "hidden alcoholics" among the upper middle class, but I think that a mentally and monetarily rich person doesn't need substances. When a person is in balance, he can control his alcohol usage, money and behaviour.

In Finland I have been in seminars for unemployed people about how to start your own business. There the attendee's biggest concern was how to get more money from government, not how to start successful business. They could not understand why would anyone start a business if they get the same amount of government money indefinitely without doing anything? Those unemployed people who have all the time in the world and very little money from government welfare, went to buy lunches, cinnamon buns and coffee at nearby restaurants, instead of taking their own snacks with them. They spent their one day government support on a lunch.

In the other hand I know highly educated, successful people in Finland and in North America who spend all their money on things like furniture, vacations, restaurant meals, etc., and they are always living from a pay check to pay check, even when they make more than 50 000 a year. If you can't manage your money, you can't invest.

The wealth starts from the within: the wealth and the path to rich life starts from the way of thinking because our thoughts transfer into words and words transfer to actions. The only way to be rich mentally and financially is to be optimistic. Donald Trump says "expect the best and prepare for the worst" That sentence is about thinking optimistically but also being realistic at the same time. Being an optimist doesn't mean living in the fantasy world. Understand what kind of decisions you make and what are the alternatives. If you ever want to improve, you have get out of you comfort zone and understand the meaning of opportunity cost. If you keep doing what you have always been doing, there is no improvement.

3.5 Most of your problems are caused by illogical behaviour

As I have given you many examples of how people buy ready cut cheese slices and bad expensive coffee at stores, I'm sure you can start to see the pattern. Way too many people are not logical with their behaviour and that causes monetary loss and also loss in mental and spiritual health. I'll open up those statements for you and how you can protect yourself from illogical people, how take advantage of this information and also how to improve yourself.

Do you think it is logical for a person to complain how he hates his job and how money is tight, but buys new expensive design furniture. And then complains how it costs a lot of money. Or do you have friends who don't have very much money and they'd want to be rich, but for some reason they go to bars on weekends? Is there any logic in that?

Do you think it is logical for someone to complain about a job and not do anything to change the situation? Is it logical to complain about another person to you, but never say anything to the actual person? Is it logical to want all kind of things in life but not ask questions like "what do I need to do differently to achieve those things?" If you listen to what people say and observe their behaviour, you'll notice that many times it doesn't make any sense. Those same illogical people are in the stock market! That is why you can't blindly do what the big masses do.

Learn to protect yourself from illogical behaviour by not expecting people to change. If you can see the big picture and think outside the box, you can ignore the behaviour of people who are not logical. Illogical people don't always realise that they are illogical. You can avoid the lack of logic by asking questions and being brutally honest to yourself.

Only way improvement happens is to get out of your comfort zone. Just like in the gym the only way you make improvements in your physique, is to go over what feels good, to force your body and mind to adapt. The same way you should think about money. If you are going to become a business owner and an investor you have to be able to adapt to new things. There is a saying that everyday you should do something new to make your business to grow whether it is to read a new financial statement or learn a new way of marketing. All the successful people try to improve themselves. They never stop learning and educating themselves in all areas of life. A real investor invests in himself in many ways.

One of the biggest reasons why people don't succeed though is that they are staying in their comfort zone. It feels safe to do things you have done before. New things are tiring, demanding and most likely make you fail. The education system teaches us to avoid failing. We are punished when we fail, make mistakes or ask for help (that is called cheating). Business and the world of money is the opposite. Only way to truly succeed in the real world is to try, learn from failures which can't be totally avoided, then try again and be surrounded by people who know more than you do, so you can ask for their help (in real life that is called teamwork, not cheating). I'm glad to see how the old "never fail, do what you are told to do" thinking has started to change. Right now those who are starting companies have the advantage because they are part of a big global attitude change. When there is change, there are always new opportunities.

Now I have given you examples how people behave illogically. You can use this knowledge to make a lot of money, because the stock market is filled with people who are not logical. That is why there are behavioural finance classes, and markets go up and down even if there is not a change in facts. Later in this thesis I will explain how to analyse companies and make logical decisions based on numbers and facts, not feelings or how market behaves on that day.

3.6 Assets, liabilities and cash flow

This section is important because a logical person avoids liabilities and acquires assets that create cash flow. One of the first steps to great wealth is to know what is an asset, what is a liability and how the cash flow happens.

Cash flow is one of the most important money concepts you must understand. If you have more cash coming in than going out, then you are making money. If more cash flows out than in, then you are losing money. If you are losing money for too long at some point you'll go bankrupt. This is valid when talking about individuals, companies or governments. Assets create inflow and liabilities outflow.

Asset is what makes you money because assets create cash inflow. The more assets you have, the less you have to worry about money. But you have to watch your assets because an asset can quickly become a liabilityt. Assets are real estate, IPR, commodities, farms, stocks, etc. All of these can make you money and also lose the money. If you have assets, a rental house for example, it is an asset as long as it produces cash flow into your pocket.

An asset becomes a liability when it starts losing you money. A rental apartment can become a liability if it takes more money from your pocket than it brings in. Your house, car and consumer loans are liabilities. The only way to become rich is to have your assets producing more money than liabilities taking it out.

The biggest thing the poor don't understand is that you don't need to have millions to be wealthy. You just need constant cash flow to your pocket. For example if you have 10 rental apartments, and total cash flow from them is 3000 euros per month after taxes and expenses, that's all you need. Create cash flow and you can become financially free.

This also applies to companies. Search for companies which have strong assets. Later I will discuss more about analysing companies and their assets.

3.7 Having a business major doesn't mean the person has good investing skills

I'm sure you have also noticed that there are many well educated yet ignorant, lazy and just stupid people in the world. Those same people are in the stock market. Good education only means that you might understand the numbers better but it doesn’t mean you can invest in stocks. If a finance major actually meant that a person could invest in stocks, all the finance majors would be millionaires.

3.8 Financial advisors are salesmen

Choose your advisor very carefully because if your financial advisor actually knew how to invest, most likely he wouldn’t be your advisor. He’d be in Fiji. By the way, the guy called a financial advisor you see at the bank might know nothing about stocks. His job is to sell you their services and real the investors are in private offices doing the actual investing. Most financial planners or managers are salespeople. Their job is to get you to sign a paper that you authorise them to do whatever they want with your money. Banks make money as commissions when they do trades,not when they make profits. That’s why bonds are so heavily marketed. Bonds are for people who don’t know better. Never buy bonds, period (Kioysaki, 2009).

However, I think it is good to have advisors and read reports made by experts, just make sure you are the one who makes the decisions, not your advisor. You can buy an investor service for 20-30 euros per month where you get real time market info, expert recommendations, analysis, etc., information that used to only available to Wall Street big guys. Internet has made pro level stock investing available to everyone. But why so many people still keeps losing money? It comes down to laziness, ignorance and the lack of ability to control their emotions.

3.9 What is the biggest difference between stock market winners and losers?

Mental strength is the biggest difference between between those who succeed and those who don’t on the stock market. If you have ever bought a stock and watched its price decline, you know the terrible feeling of watching your money disappear. That feeling is why people fail with stocks and why they stay out of the stock market after losing money.

Watching your stocks decline feels worse than the good feeling of watching it go up. You can avoid “loss aversion” by not checking daily how your stocks are doing. You don’t have a real estate agent coming to your house to evaluate its price daily either, right?

Ideally stock investing is emotionless, boring and based on facts, but in reality the stock market is driven by greed and fear. If you can control your emotions, you can make a lot of money. You also have to be willing to fail and be able to admit mistakes. If you make a mistake and the sooner you admit it, less money you will lose.

The best to way to control your emotions is to practice and do the analysis work well. When you know what you are doing, you can control your emotions better. Just like the top athletes practice so hard that when the show time comes, they know for sure that they are going to win. Same way you should know that your investment is going to make money for you, even if the share price would keep declining for a while. You should be so sure about your investments that investing is boring. George Soros has said “good investing is boring”, (Ramos).

3.10 List of things you should do if you want to be wealthy ***(very important)***

So far we have talked about the world of money, mindset and behaviour of people and the basic things you need to do in order to make a lot of money. Here is a to do list of the things we discussed.

- understand how money and economics work
- start thinking like a business owner and an investor
- think positively and ask questions
- recognise illogical behaviour to protect yourself and to profit from it
- understand what opportunity cost is
- learn to sell and invest
- keep educating yourself about money
- get out of your comfort zone
- surround yourself with people who know more than you do
- understand what is an asset, a liability and how to create cash flow
- do your analysis well

4.0 SECTION IV - THE FOUNDATION TO UNDERSTANDING THE STOCK MARKET

In this chapter I will answer the very basic questions such as: what is a stock, what is stock investing, what is a stock market, why stock trading happens and so on? This chapter will give the very foundation and without it you can't understand stock market.

If you aren't experienced trader, this is a very good chapter to read. Just like when building a house, if the foundation is weak, rest of the building can't be strong. A strong foundation makes it possible to build a strong and tall skyscraper. That is why this chapter is really important, even if some readers will think that this information is too basic for them.

I want your investment foundation to be strong and I'm sure you want it to be too. After all, it is literally your money and your life that this information will directly affect. Let's continue the journey to the possibility of making millions!

4.1 Why do people buy stocks (shares of companies)?

When you own a stock of the company, you own a share of the company. Literally you own a small piece of the company. If the company makes profit, your stock, which is a note, gives you the right to share the profit of the company, which is called dividends. People buy stocks because they want to share the profit of the company.

4.2 What is a stock and a share?

A stock is <u>a note,</u> that used to be a paper certificate saying how many shares of the company you own (Investopedia, no date). It gives you the right to own a small piece of a company. That is why you hear people saying "I own a share of that company". So, basically you can say "I own stocks of that company" or "I own a share of that company".

4.3 What is stock investing?

It is called stock investing when a person buys stock of a company. When you buy the stock, you buy a share of the company.

There are also different types of stock investing strategies. The strategies are called short-term investing, long-term investing, speculation, hope-and-pray, shorting, etc.

4.4 What is stock trading?

Stock trading happens when someone buys a stock and another person sells the stock.

4.5 What is stock exchange?

Stock exchange is a service platform where the stock trading happens, for example Nasdaq and New York Stock Exchange (NYSE). Nowadays notes are exchanged for money among traders electronically. In the old days it used to be paper notes. Banks act as the middle man ensuring the transactions happen.

4.6 What is a stock market?

Usually "stock market" is refers to the whole stock market industry the same way as people talk about the "real estate market". In real the estate market "hard assets" such as buildings and land are traded, in stock market "paper assets" such as stocks and bonds are traded.

4.7 Why the stock market was created?

The stock market was created so companies could have cash to fund their operations. The idea of stocks has been around since ancient times, but in 1602 The Dutch East Indian Company was the first joint-stock company and it was created to fund voyagers. Since then the stock market has grown to what it is today (Bramble), (Investopedia).

4.8 Why a company wants to get listed in a stock exchange and be a part of the global stock market?

These are three main reasons why companies want to get listed in a stock exchange:

1. IPO (initial public offering) is when a company gets listed the first time and it is also called "a pay day" for current owners. Owners of the company usually make lots of money in an IPO.
2. IPO takes a lot of the risk away from the owners and banks, but increases their possibility for big gains.
3. Issuing an IPO and becoming a publicly traded, the company gains financial flexibility. For example the company can use its own shares to buy another companies and to secure loans.

To explain better why many companies get listed in a stock exchange, I will use an imaginary company called Dog's Food Inc. Dog's Food Inc. wants to open a new factory in the USA and China to become a global dog food manufacturing company. Dog's Food Inc. could try to borrow the money needed from banks to fund the growth, but it would have to pay interest on the loan. Also, since Dog's Food Inc. is not a very big company yet, with years of good track record, it has a very difficult time to get hundreds of millions as a bank loan to fund the growth operations. Getting listed would give cheaper money for Dog's food inc. because it wouldn't have to pay interest on the money it gets.

On the other hand banks want companies to get listed because they make money out of the whole stock market industry, and people who buy the stocks take all the risk. A big loan would be a big risk and a liability for the bank and also for the owners in case the business operations won't go as planned. That's why they want us, the people who buy the stocks, to take the risk.

In many ways it is a win-win situation. Banks and owners have less risk and normal people can gain directly from big companies' success, which they couldn't otherwise. Of course you can lose all the money, or most of it, if the company you have invested in goes bankrupt, but that is a part of the business world. If you can't handle risks, it is better stay in a day job and do the lottery on weekends.

4.9 Why IPO is "a pay day" for owners?

Imagine a situation, in which you found Dog's Food Inc. with your friend. You both put in 500 euros and each of you get 500 shares. Your company starts making profit and grows. After two years you want to "buy out" your friend. So, you offer him 100 000 euros for his 500 shares. Your friend agrees to sell the shares to you. Now you own all the 1000 shares of the company which equals to 100% ownership. Your friend's 500 euros investment and the time he put into the company made him a nice one time profit.

Dog's Food Inc. becomes so successful that you decide to make it into an international dog food manufacturing company. Your company is already making a really good profit but the growth needs a lot more working capital (cash) than you have. In the IPO you are going to offer 50% ownership of the company for 10 million dollars. Your IPO is a success and it gets fully bought, meaning that many people bought the stocks of your company.

Now your company has 10 million in cash and you personally still own another 50% of the company. That makes your shares worth 10 million or whatever the current share price is, plus the annual dividends from profits.

4.11 How can I invest in a company before its IPO?

The best investment opportunities are before IPOs, but those are also riskier. A lot of times normal people can't invest in those opportunities because to be able to invest in many of those deals you have to be accredited investor. Basically it means having a lot of money. However group funding, high risk funds and publicly traded companies that invest in start ups are ways to get your hands on companies before IPOs.

For example in the USA a law was written in 1933 after the 1929 financial crisis to protect "normal people" from risky investments that they don't understand. It protects people but it also prevents them of being a part of the club that is for the elite. Robert Kioysaki has said that this is one of the reasons why rich can become even richer.

You can read about how to become an accredited investor at http://www.investor.gov/news-alerts/investor-bulletins/investor-bulletin-accredited-investors#.VHYGr0u7rwI

4.12 What is a stock split?

A stock split usually happens when the shares become so expensive that people are afraid to buy it. There is a lot of psychology involved in astock split.

Stock split means that if a company's share price is for example 100€ per shareand the split is 2-1, then after the split you have two shares of the company worth 50€ per share. You have more shares of the company but the net worth of it has not changed. Split has usually a positive effect on the price, meaning it will go up.

A stock split can also happen in another way when many shares gets combined as one share. Usually after this the share price falls.

4.13 Where can I look at share prices?

You can go to kauppalehti.fi, marketwatch.com, yahoo.com, NYSE.com. or just type "stock market" on Google.

4.14 How much money can I make in the stock market?

It depends on how skilled and lucky you are. Warren Buffett started with 100 000 dollars of his own money and has become one of the richest people on the planet. But he didn't do it only by being a stock investor. He is also a business owner.

4.15 How can I start stock investing?

You can start selling and buying stocks of companies by going to a bank and opening a specific investment account. They will help you in getting started and show you how to actually do the trading.

4.16 Why should I do fundamental analysis of companies before buying shares?

When you start analysing a company, you should analyse it as if you were buying the entire business. Most of stock investors don't think this way and it is one of the biggest reasons why so many of them fail. They just look at charts and think they are getting a good deal if the company has declined 90%. Just look at what happened with Talvivaara mining company "lottery ticket." There were thousands better investments but people kept buying Talvivaara even if fundamentally it didn't make any sense.

In the upcoming chapters I will talk about how to do a fundamental analysis of companies. Fundamental analysis is something anyone can do, if you can do elementary level math and read news. I recommend using both fundamental and technical analysis but in this thesis I will focus only on fundamental analysis because Fundamental analysis is more about looking at the business itself, the management and how the business is valued at current market. Technical analysis focus on the price movements and try to forecast trends similar to weather forecast. The time horizon of fundamental analyst is usually years while technical analyst looks from minutes to months.

Traders who very actively buy and sell shares focus more on technical analysis and investors who think in terms of years or decades put more emphasis on fundamental analysis (Janssen. Langager & Murphy, no date).

Most likely you will see stock investing in a totally different way than before after reading this thesis. You will see how it requires lots of work but also how it is much more simple than what "the experts" want you to believe.

What I'm going to talk about in the next chapter is mainly based on what Warren Buffett does, the best stock investor of all time.

5.0 SECTION V - STEPS TO ANALYSING COMPANIES

These are clear steps when analysing companies. You'll notice that many great companies that are recommended by "experts" and all kinds of analysts are not worth buying. You are going to be looking for for almost fool-proof purchase, not some trendy stock. That is why most of the companies are not going to pass your analysis. It is better to be conservative and somewhat right, than totally wrong.

5.1 Structure of the analysis

There are many ways to analyse companies. Below is a structure based on what Warren Buffett does, but I will also talk about other measurements such as P/B ratio when analysing a company.

The following structure is based on the book The Warren Buffett Way, third edition written by Robert G Hagstrom, pages 45-70, (2014).

Financials

- What is the company's return on equity (not earning per share)?
- Calculate "owner earnings"
- What is the profit margin (it has to be at least 15% but look for above 25%)
- For every dollar or euro retained, make sure the company has created at least one dollar of market value

Business

- What does the company do, what does it sell?
- What is the company's competitive advantage?
- Does the business have a consistent operation history?
- Does the business have a favourable long-term future forecast?
- What kind of brands the company has?

Management

- What kind of people the managers are, what is their history?

- What kind of decisions is the management doing with the extra cash?
- Does the management have an entrepreneur spirit?
- How is the culture in the organisation?

Market Price and Valuation

- What is the value of the business?
- Can the business be purchased at a significant discount to its value
- Events that affect the stock price

5.2 Basics of Financials

I call this background check level-1. It is because these numbers are simple, easy to find and easy to understand. Before you analyse anything else, these are numbers you should look at.

Financial analysis is what usually makes people say “this is way too complicated and time consuming.” Either they skip the numbers and invest by gut feeling or don’t invest at all by saying things like “it is too risky, it is too complicated, I’m not smart enough, I hate math and numbers,” and so on. But instead of watching TV, if a person puts a little extra time in learning what am I about to tell you, one's wealth would increase tremendously.

There is a saying “numbers don’t lie”, but remember that numbers never tell the whole truth. If you have ever taken basic finance classes you’ll notice how numbers can be manipulated, for example by calculating inventory in different ways. When looking into the numbers of the company, the level of math is elementary.

You can find out how to calculate following numbers and their deeper explanation at websites such as http://www.investopedia.com. Here I have explained to you in plain english what these numbers mean and why they matter, because anyone can calculate things, but to understand what numbers mean, is the most important.

Compare a company within its peers in the industry by following numbers (explained below):
- P/B ratio
- P/E ratio
- Dividend yield
- Determine a company’s value by calculating the intrinsic value (this will tell whether the company’s stock is cheap enough to be even considered to be bought).

Look for a company that you can buy at a discount. The bigger the discount, the more margin of safety you create for yourself. For example if you calculate that the intrinsic value of the company is 100€ per share and you buy it at 75€ per share, that gives you “25% discount” (Graham).

5.2.1 ROE - Return on equity

How much money a company can produce with the money they have (Investinganswers, no date). Usually less than 10% is unsatisfactory and above 20% is excellent (Buyandhold, no date).

5.2.2 ROI - Return on investment

How much money the company's investments produce. If this is not above 5% the management has not done a good job (Entrepreneur, no date).

5.2.3 Owner Earnings

Pontzio (2007) quotes Warren Buffett "much money company can make over a long period of time (Owner earnings) represent (a) reported earnings plus (b) depreciation, depletion, amortization, and certain other non-cash charges…less (c) the average annual amount of capitalized expenditures for plant and equipment, etc. that the business requires to fully maintain its long-term competitive position and its unit volume" (Fwallstreet, 2007). Basically how much money the company has after deductions and liabilities are paid out.

5.2.4 Profit Margin

This number tells how much profit a company makes. For example a company buys milk for 100 euros and sells it as ice cream for 110 euros. That gives the company 10% profit margin. Look for companies having at least 15% profit margin and never invest into a company that have their profit margin below 8%. This number varies a lot by industry and it has been said that companies whose stock price is about to rise rapidly, have above 25% profit margins (Investinganswers, no date).

5.2.5 The-One-Dollar Premise

According to Hagstrom (2011) and Harper the-one-dollar premise means that for every retained dollar (extra cash that is not paid as dividends) the company should increase its value at least by the same amount. If a company keeps 100 million dollars for itself, over a period of time it should increase the value of the company by at least the same amount, otherwise the management has done a poor job. If the company employs retained earning profitably over a long period of time, it will eventually increase the share price and if not employed profitable the effect is the opposite.

5.2.6 Numbers you want the company to achieve

There are different numbers recommended by experts and this is a conclusion of what I recommend as the minimum. If you find a company that has the following numbers, most likely it is worth investing in or at least you should look into it deeper:

- ROE above 15%
- ROI above 10%
- Profit margin above 20%
- The-one-dollar-premise successfully held at retaining amount or above.

Notice that the numbers above are based on high medians I have found from different sources and many investments I have made with less impressive numbers have been great. You should always compare the numbers within the industry of the company. Also, if you are looking at a company in turnaround its number may not be great yet. Always remember that numbers never tell the whole truth.

5.3 Market Price and Valuation

Now we are going to determine what is the “real” value of a business and to see if we can buy it at a discount. There are many different formulas to determine the value of a business such as price-to-earnings, price-to-book, high dividend yields, etc. I will go over all three mentioned and the intrinsic value calculation used by Warren Buffett to determine what the company is worth and at what price it could be bought.

Robert G Hagstrom writes “The best system according to Buffett, was determined more than 70 years ago by John Burr Williams. Buffett tells that the value of a business is determined by net cash flow to a shareholder over the life of business discounted at an appropriate interest rate” (2014, 65).

5.3.1 Intrinsic value

To calculate intrinsic value I recommend watching this website's videos and to use their calculators. There is a 30 minute video explaining very well how to do this http://buffettsbooks.com/howtoinvestinstocks/course2/stocks/intrinsic-value-calculator.html#sthash.7SjVzPOt.caPUAwhA.dpbs .

<u>Here are steps how to calculate intrinsic value (Intelligent stocks. 2014):</u>

1. Find the company’s trailing 12 month net income (annual and quarterly reports)
2. Use the trailing 12 month net income as a proxy for the company’s free cash flow
3. Project the company’s net income over the next 5 to 10 years using a conservative net income growth rate (e.g. a 5% compound annual growth rate)
4. Calculate the terminal value at year 10 using the gordon
5. What is the value of the business?
6. Can the business be purchased at a significant discount to its value

Again, I recommend to watch the video and to use their free calculator. It makes this process really easy and fast.

5.3.2 Price-to-earnings (P/E ratio)

P/E ratio tells how much the company is producing per share compared to its share price. P/E ratio is calculated: Current share price / Earning per share. For example a company’s share is currently worth 10€ and its earnings per share are 0,5€. P/E = 10/0,5 = 20 Depending on the industry and country P/E is usually between 10-20 (Investopedia, 2014).

According to the article at Investopedia (2014) “In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, the P/E ratio doesn't tell us the whole story by itself. It's usually more useful to compare the P/E ratios of one company to other companies in the same industry, to the market in general or against the company's own historical P/E. It would not be useful for investors using the P/E ratio as a basis for their investment to compare the P/E of a technology company (high P/E) to a utility company (low P/E) as each industry has much different growth prospects”.

5.3.3 Price-to-book (P/B Ratio)

Found at Investopedia as a definition for price-to-book is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.
Also known as the "price-equity ratio”.

Calculated as:

$$\text{P/B Ratio} = \frac{\text{Stock Price}}{\text{Total Assets - Intangible Assets and Liabilities}}$$

A lower P/B ratio could mean that the stock is undervalued. However, it could also mean that something is fundamentally wrong with the company. As with most ratios, be aware that this varies by industry. This ratio also gives some idea of whether you're paying too much for what would be left if the company went bankrupt immediately.
(Investopedia, 2014)

5.3.4 High dividend yield

A high dividend yield tells you how much you are getting back in dividends compared to the stock price. For example if you buy a stock for 100€ and you get 1€ dividend in a year, (100€/1€=1), that gives you 1% dividend yield.

Big and old companies usually give out a dividend yield between 1 and 10%, but you can find companies that gives you almost up to 50% divined yields. Before buying a high dividend yield company make sure it is solid and well run company to avoid a trap. The company must have extra cash, good cash flow and positive outlook, etc. in order to meet the high yield in the future. Remember, if something is too good to be true, then most likely it is too goo to be true, (Hagstrom, 2014).

5.4 Business Tenets - Is the business simple and understandable?

The business should be simple enough that you can understand it. You also have to understand the industry and the market that the company is in. For example Coca-Cola is simple and understandable. They sell sugary syrup that coke is made out of and other beverages.

When you start looking into to the company and what it does on deeper level, these are things the you should analyse to understand how the company makes money.

- revenues / income (amount of money coming in)
- expenses (amount of money going out)
- cash flow (movement of money in and out from the business. Where the money comes from and where it goes to and why)
- assets (what company has that produces income, for example a leased rental properties, patents, factories, products, etc.)
- liabilities (things that take money out from the company, for example a leased rental property to the company, raw material cost, salaries, loans, interest payments, lawsuits, etc.)
- labor relations (how the company treats its workers and how workers feel about the company)
- pricing flexibility (does the company have flexibility to change prices)
- capital allocation (to where company directs its money)
- Market leadership (is the company one of the leaders in the market)
- Competitive advantage (what makes the company better than the others and can it be easily replicated)

(BusinessDictionary, no date)

5.5 Watch out for goodwill!

Goodwill is shown for example as increased brand value. Basically this number has no real tangible measure. Be cautious if this is a big number. You could calculate the value of company without goodwill. But you can also spot hidden gems if a brand value or value of a building has not been updated in 30 years for example.

5.6 What is the life cycle stage of the company.

When analysing companies pay close attention at what their current life cycle is.

Development stage:
Company loses money as it develops products and services and establishes markets.

Rapid growth
During this stage, the company is profitable but growing so fast that it cannot support the growth. Often companies at this stage must not only retain all their earning (not paying dividends) but also borrow money.

Maturity stage

The growth rate slows down and the company beings to generate excess cash. Companies at this stage are paying dividends, trying to find new markets, developing new products to replace the old ones and trying to keep their competitive advantage.

Decline stage

Virtually every product faces this phase at some point. If a company can't keep changing and improving its products and/or services, the company goes into decline stage. The company's sales decline and it loses earnings but still generates excess cash. For example Apple is about to face these type of challenges in near future and that's why they are planning to enter totally new markets to avoid the decline stage.

5.7 Consistent Operation History

Robert G Hagstrom writes in his book The Warren Buffett Way that Warren Buffett wants to see consistent operating history. He avoids investing in businesses that have complexity, uncertainty and difficult problems. He likes to see what he gets.

I think that is very much like dating a person. Would you like to be with a person who is good looking, well educated and seen life, is emotionally stable, has good income or going to have, and is over all positive and good person? Or would you like to be with someone who is overweight, a smoker, unemployed, doesn't really know what he wants from life, has unsolved past issues, is an insecure and a negative person with a drinking problem, but is <u>in the progress of getting better</u> (in business world that is called "going through corporation reorganisation and restructuring")?

Based on what I have learned and my own experiences regarding a company's reorganisation and restructuring is that the company can succeed only if: (1) the company has a solid product, (2) the market is favourable and (3) the new management that comes in is really skillful. All those three elements have to be in place, otherwise the company has virtually no chance to succeed.

A great example of how a good company can turn into a bad one and again going back to being a good one is Nokia. They became #1 cellphone company in the world but could not keep evolving and the company lost their entrepreneurship culture. Their management kept changing but the environment inside the corporation didn't change, they kept making mediocre products and lost brand value. Now they have a new strong leader with a strong track record and a clear vision, focused business operations and overall everything they do is more simplified. I believe the new Nokia has a chance to succeed but only time will tell.

5.8 Management Tenets

You will hear any good experienced investor or a business owner saying that "a mediocre management can ruin a good company and destroy a great idea, but great management can turn a mediocre company into a good company and make a decent idea into a great idea" (commonly used phrase).

Benjamin Graham writes in his book Intelligent Investor that when analysing a company you should put lot of effort into management evaluation. When you buy a share of a company, the management is directly managing your wealth and the business you partly own. Warren Buffett has said this in many interviews that he invests in a business that even an idiot can run because sooner or later one will.

Biographies of different types of leaders are good to read, in order to learn to recognise good leadership qualities and ways of leading. You'll notice how all the great leaders have the same type of qualities. For example all the great leaders are passionate about what they do, they have a clear vision of what they want the company to be like, they have faith in the process of making that vision a reality even when everyone says it can't be done, and they have the determination to do actual work day after day.

5.9 Rationality of the Management With Cash

"The most important management act is the allocation of the company's capital. It is the most important because allocation of capital (money), over time, determines shareholder value" Hagstrom (2014).

If you have been a stock owner of Outokumpu, you have noticed how your investment can lose almost all of it original value because of bad capital allocation. A few years ago Outokumpu bought some steel factories in Southern Europe. When the deal was done and billions were put into it, European trade commission decided that they are not going to approve the deal. Outokumpu had to sell the factory they just bought. This can be found at Outokumpu's annual reports. Another example is from early 2000 how Sonera lost 3.84 billion euros when their G3 network venture went down in Germany (Taloussanomat 2010).

5.10 To where the company puts the excess money?

Retaining earnings means that the company keeps the extra cash instead paying as dividends to owners. If a company provides above average returns on capital (money) they retain, then they should retain all the earnings. If the extra cash company retains within itself, keeps producing below average results, then it should give it to the shareholders through dividends. That is very logical when put in black and white terms. What is above average depends on industry, but it shouldn't be less than 5% based on many experts' recommendations, (hagstrom, 2014).

5.11 Forecast of management

Many times the management keeps re-investing the extra cash and gives optimistic forecasts. This gets shareholders hopes up that the company will gain value but if management can't keep their forecasts the company's value and share price will decline.

Analysing the management's track record is very important just like looking into a hockey goalie's stats before signing a new goalie. If the management has not been able to produce good results in the past, why it could get it done in the future? If the management has been able to produce good results, ask why it happened? Always ask: why did this happen, what are the reasons behind a certain outcome? Was the good result just lucky timing or real skill? What was the management thinking when they made the plans? There is always a reason for everything, whether it is logical or illogical, (hagstrom, 2014).

5.12 How growth is made

Buffett is skeptical if a company needs to buy growth. When buying another company, the integration process can be very hard to make happen. Everyone knows how hard it can be to integrate a new person to an existing group of friends, imagine integrating thousands of people in different companies and different management teams. Integrating process is often time and money consuming, which costs money to the shareholders.

A company you invest in should have lots of extra cash generated every year and if the company can't have above average returns for retained earnings then it should either raise the dividends or buy back its shares.

Look for companies repurchasing its shares! This is often an overlooked action but actually better than raised dividends in the long run. For example if the management sees that the company is undervalued and buys back it shares for 5 euros per share and the real value of the company is 10 euros per share, then for every dollar the company spends on buying back the shares, it generates 2 euros for the current owners. Usually this increases the dividends because there are less outstanding shares. Look for companies buying back its shares. Most of the time it is a good sign, (Hagstrom, 2014).

5.13 How management communicates with shareholders?

It is very important to determine how the management communicates to the shareholders. You are a shareholder and the management works for you. Based on what I have learned, you should ask the following questions:
- Are annual reports easy to understand?
- If the management makes mistakes, does it admit it?
- How well the management's forecasts happen and how accurate they are (they should know the business they are in)?
- In the annual report the management should be able to answer these questions: 1. How much is the company worth, 2. how well it can meet its obligations 3. how good job the management is doing, given the hand they have been dealt?

Every management makes mistakes sometimes. That is just a fact in life, but how they react to it, is worth looking into. If management has made mistakes, company has lost market share but still the annual report trumpets success and optimistic forecast, how can the management be trustworthy? If allocation of capital is so simple, either give it back to shareholders or make it grow, why is the capital spent poorly?

Before investing into a company you should read at least 5 annual reports. If the company doesn't have 5 annual reports, think twice about investing into it.

Do the managers have entrepreneur spirit and what kind of corporate culture do they create? There are managers who are worried about their jobs and managers who want the best for the company. Managers must be passionate about the business they are in, they have to feel like they are doing something important every day, they must be like entrepreneurs. Otherwise the company can't really succeed.

Managers who are entrepreneurial tend to create a more positive and open corporate culture where everyone feels better, than a strict hierarchy where everyone is worried about just getting paid. Good managers get more out of people and that makes the whole company worth a lot more. After all the company is only as good as the people, (Hagstrom, 2014).

5.14 Favourable Long-Term Outlook

Hagstrom, 2014 "Buffett divides the economics world into two unequal parts: a small group of great businesses, which he terms franchises, and a much larger group of bad business, of which most are not worth purchasing. He defines a franchise as a company providing a product or a service that is (1) needed or desired, (2) has no close substitute, (3) is not regulated. These traits allow the company to retain its price, and occasionally raise it, without the fear of losing market share or unit volume. This pricing flexibility is one of the defining characteristics of a great business; it allows the company to earn above average returns on capital".

5.15 Events that affect the share price

- Positive warning (very good) = company lets the public know that it predicts better earnings than it thought.
- Extra dividends or raised dividends (very good) = shareholders will get more money and company must have a positive outlook.
- One company splits into two companies (usually very good) = shareholders are given stocks of the new company. For example when you had forum's stocks and Neste Oil was split into its own company you got Neste Oil's stocks.
- Share repurchase (usually very good) = company must believe their share is going to be worth more in the future and there will be less shares sharing the future dividends.
- New product (usually good) = company makes money from products. This can increase earnings.
- New market entry (can be good) = a company can have new sources of income if they succeed.
- Big acquisitions (be very cautious) = small acquisitions are good in the long run but big ones almost always cause a growing pains.
- Negative warning (very bad) = company will be making less money than they predicted.
- Other things to look out for are the state of global economy and big economies such as China and the USA. Also every industry has its own happenings. All the industries are somewhat connected, but when you have a big marking of safety (a stock bought at a cheap price compared to its real value), then you have a chance to succeed even in a bad economy.

5.16 What does a price of the share mean?

When dealing with the stock market you have to remember that it is "bi-polar". The price of the share shows the feelings of the greediest, the most pessimistic, the most optimistic and the most scared investors. When the stock market closes, the price shown is what the last person was ready to pay for the share. The price of the share could have been 1€ in the morning and 100€ at the end of the day. It doesn't matter if the person bought just a one share, but the market will show 10 000% gain. The current value of your investment is the latest purchase price on the market, (Fanara. 2014)

When buying or selling the stock you should have a clear idea why you are doing it at the moment.

5.17 Holding period of Warren Buffett and when to sell the shares

Warren Buffett says that his holding period is forever (Brainyquote). Most of the companies he buys, he keeps because they give him cash flow. The companies Buffett invests in usually increase their profits and dividends year after year. If the company can keep the good dividend payments during bad times, the price of the share won't decline as badly as other companies.

You buy the shares of a company because it is either in a growth period, it is a turnaround or stalwart. You have determined clear reasons why the company will make money to you. You buy the shares of the company because of "the story". That is why you should keep checking "the story" every couple months. What I mean by that is for example, if you buy a growth company and it starts becoming stagnant, then usually it is time to sell. Or a stalwart company starts losing its edge. Nokia is a great example of a company that has gone through all the faces. It was a growth company at first. Then it became stalwart, which lost the edge and now it seems to be a turnaround.

Sometimes a growth or turnaround company becomes stalwart and it is worth to keep but not always. For example if the growth expectations are much higher than what the company can manage to reach. My message to you is that when "the story" of the company changes, consider selling it.

You will find very detailed analysis when to sell the shares in the book I'm going to publish 2016-2017.

5.18 BIG market crash coming in 2016?

Before you go out on stock buying spree I want to warn you, that the biggest stock market crash in the history is coming most likely in 2016. If you are prepared, there are big profits to be made. Based on what I have read there are clear facts why this could happen. The big reason for this is that in the USA pension plans are tied to stock the market, the way that all of the pension money is put into stocks. In 2016 those people whose plans that are tied to stock market will start getting money from their pension. And how the people can get the money? The pension management companies must sell shares. When the pension plan companies must start to sell their shares of companies and when there are more people selling than buying it means a decline. In addition, at the moment the stock market in the USA is breaking records, there is massive money printing going on around the world, governments and households are deep in debt. I and obviously many experts see big a big storm forming, (Kioysaki, 2009).

6.0 SECTION VI - CONCLUSION OF THE THESIS

There are same rules that apply to success in business and investing as there are in sports. Here is a list of how to succeed in sports that apply to sports and investing:

1. In sports the best athletes have the best coaches and the best support personnel around them. You should have a good advisor team around you and a mentor who has succeeded himself. All of them must have a passion for business and investing.

2. You must have passion for the type of investing or business you are doing. For example you if you are passionate about renewable energy, then focus on renewable energy stocks. If you really like real estate then stick with real estate. When you have passion for something, you naturally tend to do better. Other way to say this: Play with your strengths.

3. You must have faith in yourself and trust that you are making the right decisions. This takes practice and training, just like the best athletes train hard. In the stock market it means doing very good analysis and constant education.

4. It takes determination to do the analysis of hundreds of companies, just like it takes determination to wake up at 5AM to do training day after day.

5. Your mind is your strength, knowledge is your skill, and making your own decisions is positioning.

6. To succeed in the stock market the most important asset is your mind. If you can control your emotions, you do the analysis thoroughly and you keep constantly educating yourself, then you are putting yourself into a position to succeed.

6.1. What to do now?

The first half of the thesis was a lot about personal money management and mindset. I also discussed entrepreneurship and owning a company.

As I wrote in the beginning, before you can invest your money, you have to be able to manage your money and your emotions. If you don't understand personal money management and if you can't control your emotions, you will lose money on the stock market. You might get lucky here and there, but eventually you will lose money. Start by making smart decisions at a grocery store, eat healthy and exercise regularly.

Then you need to understand how business works to be able to recognise good and bad companies. Nobody wants to buy shares of a bad company intentionally, right? A good way to learn business is to start a business, even if it is just a website where you are selling rocks you counted(picked up?) at the beach.

Here I want to repeat section 3.10 again:

- understand how money and economics work
- start thinking like a business owner and an investor

- think positively and ask questions
- recognise illogical behaviour to protect yourself and to profit from it
- understand what is opportunity cost
- learn to sell and invest
- keep educating yourself about money
- get out of your comfort zone
- surround yourself with people who know more than you do
- understand what is an asset, a liability and how to create cash flow
- do your analysis well

These are the steps you should take directly related to stock market. I recommend that after reading this thesis, you'll do the following:

1. Start investing with small amounts of real money. The reason why I think a person should start investing with real money right away is because the feeling of watching your investment value going down really motivates to study harder. Yes, it will happen to everyone. But also the joy of watching the investment increase in value motivates to find out how to do it again. The reason why you start right away with small amount of real money is that if you can't handle the fear of losing money, you are not cut mentally to invest in stocks.

2. Buy or borrow 10 books about stock investing from the library. Look up what guys like Warren Buffett and Peter Lynch recommend to read.

3. Open up a free practice investing account, which many financial institutions offer. Reason why you should open a practice account is to practice with a lot of fake money and get the feeling of what it is like to do investing when you have thousands or hundreds of thousands on stake.

4. Start reading newspapers and financial news

Remember, there are thousands of stocks out there. All you need to do is to find a couple good ones and hold on to them. Good luck.

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