Investing 101

In "Walk Toward Wealth," I teach two important strategies to improve your investment returns: writing covered calls and purchasing proven, dividend-paying equities. Below are some of the key principles that drive my investment philosophy to get you one step closer to success.

Don't put your money "under your mattress."

- Cash declines in value compared to inflation, so you miss out on the dividends you would have received if you invested in stocks and held those investments.
- Most CD and savings accounts offer very low interest rates that at best barely keep up with inflation.
- Investing in a portfolio of individual stocks, exchange-traded funds (ETFs), and/or mutual funds, can potentially provide better investment returns that overcome inflation and create wealth.

Adopt a long-term view to investing.

- By investing for a longer period, you can make up any losses in your portfolio and, through dollar-cost averaging, earn a higher rate of return over time.
- Stand steady when the market dips and keep your money in your investment portfolio to achieve significant gains in the long run.
- Guide your investment decisions with a disciplined, risk-aware strategy that seeks to add value in all market environments.
- Trust in the power of compounding. Time and quality investments are your best friends when it comes to increasing your net worth.

Follow a rules-based approach.

- Keep your head down and stay true to your principles.
- Invest in companies that have great balance sheets, solid fundamentals, good management, great products, supply chains, the ability to increase their prices during inflationary periods, and the agility to navigate recessionary periods because they manage well and have free cash flow on hand.
- The true success and measure of investing is to consistently produce solid returns, not trying to hit a home run.

Stick to your plan.

- Commit to an investment strategy and allow the power of compounding to do its work over time.
- Take a disciplined approach to your investment strategy.
- A good rules-based strategy will always trade on mathematics and sound fundamentals, not emotions.

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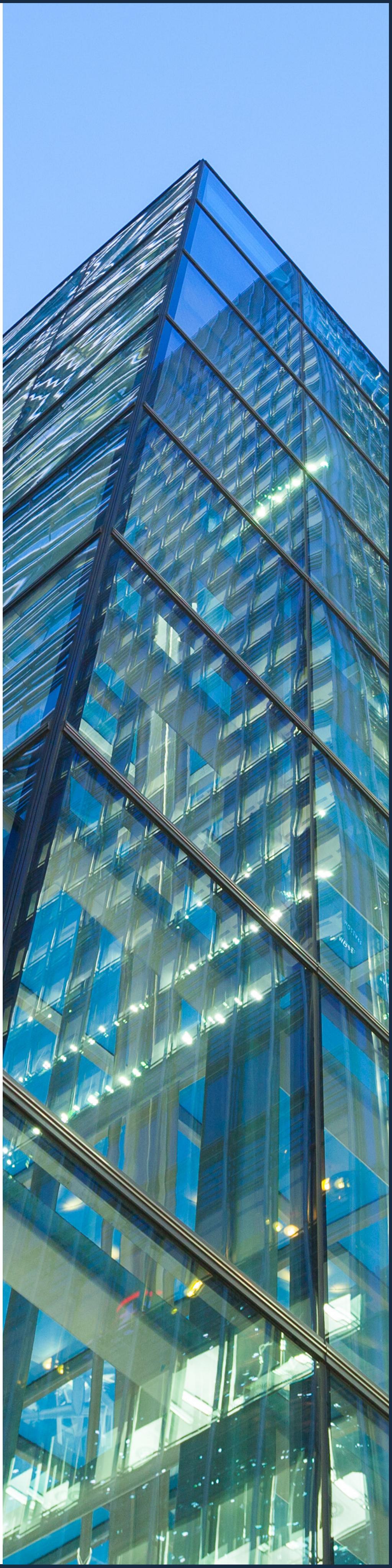
- Don't let fear of fluctuating stock prices drive you to withdraw your cash when stock prices plummet. By its nature, the stock market will rise and fall over time.

Invest in a diversified portfolio of dividend-paying stocks.

- Purchase proven, dividend-paying equities to obtain more regular income. Dividends offer consistent cash income like regular checks.
- Identify promising dividend stocks by looking at markers of fiscal strength, such as predictable cash flows, good value plus performance, company stability, and dividend metrics.
- Generate consistent income off stocks you own and keep through dividends.
- Invest in a diversified portfolio of great companies at reasonable prices, hold them, receive dividend payments, and collect covered call income to steadily build wealth.
- Stocks in good companies trend higher over time.
- Quality never goes out of style – know what you own when it comes to companies to invest in, and stick with high-quality companies for stock selection.
- Avoid speculative talk about the latest and greatest "hot" stocks – news cycles tend to be more about moving in and out of stocks than investing in great companies.
- Own stocks that increase their dividends to help provide a "raise" over time.
- Dividend growth is the secret to generating cash flow.
- Careful investment in a high-yielding, dividend-growing strategy can produce solid, risk-adjusted returns over time.
- Measure success by how well you do in periods of high volatility and market declines.

Explore covered calls.

- When buying or selling options, use a strategy that is based on your investment goals such as generating income from stock positions while still protecting your investment value.
- A covered call strategy is a fiscally conservative option strategy that offers an excellent method of generating additional income from your investment portfolio and modestly offsetting a stock's downside.
- Enjoy the potential for substantial rates of return while keeping risk to a minimum writing covered calls on high-quality, blue-chip stocks.
- If you're risk-averse, consider adding a covered call strategy to your equity investment portfolio. Covered call writing offers equity investors the opportunity to receive more stable returns and lower volatility than strictly-equity portfolios.
- Writing covered calls on a diversified portfolio of dividend-paying stocks in your portfolio can provide additional income, and help reduce volatility along the way.
- The premium generated through the sale of call options can provide a consistent income.



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Covered calls work best when you need them most.

- In many instances, covered call writing isn't the ideal solution. Use the strategy when it makes sense to do so.
- Look at the market landscape of the position, how volatility plays into it, then decide if it's productive to write a covered call.
- Take a tactical approach to writing covered calls to harvest volatility when it's appropriate and stay out of the way when markets perform well and rising tides lift all ships.
- Limit your risk to merely capping your upside on a bullish move in the stock and protect yourself from market volatility while generating solid returns in almost any market.
- Maximize your overall return — not just your covered call return. Expiration dates, varying strike prices, and knowing when not to write a covered call, are the keys to making that happen.

Understand how dividend-paying stocks and covered calls work together.

By writing covered calls on dividend-paying stocks, you can earn:

- Dividends from stocks owned.
- Capital appreciation if the stocks rise in value.
- A premium, which is cash received from investors who buy the options you write or sell.

Owning odd lots of shares of stocks, and writing covered calls on them, can help improve your total return over time. If the stocks go up, you don't have your entire position called out and can get a little more of the upside with the remaining shares.

Risk-adjusted total return is all that matters.

- How you generate portfolio performance (through dividends, covered call premiums, or market appreciation) is much less important than how much money you started with and how much you have now.

Investing in a high-quality dividend strategy and utilizing covered calls on both dividend stocks and ETFs can help you achieve long-term high performance in the market and protect your investments over time. I hope these tips help you – investing and saving wisely is a legacy for our loved ones.

- Kevin Simpson